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No. 95-580

IN THE

Supreme Court of the United States

OCTOBER TERM, 1995

SCIMED LIFE SYSTEMS, INC.,
Petitioner,

v.

SCHNEIDER (EUROPE) AG AND SCHNEIDER (USA) INC.,
Respondents.

Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

Whether 35 U.S.C. §§ 281 and 100(d), which authorize only the "patentee" and his "successors in title" to sue for infringement, permit a nonexclusive licensee to sue as a co-plaintiff merely because the licensee has the authority to sublicense and "operates in tandem" with the patent owner?

PARTIES TO PROCEEDING

SciMed is a wholly owned subsidiary of Boston Scientific Corporation. SciMed has no subsidiaries or affiliates that have issued shares to the public.

The parent company of Schneider (Europe) AG and Schneider (USA) Inc., is Pfizer Inc.[1]

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[1] Additional details of the Pfizer management structure relative to Schneider (Europe) AG and Schneider (USA) are set forth in the district court opinion. (App., *infra*, A18-A19).

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OPINIONS BELOW

The text of the opinion of the Court of Appeals for the Federal Circuit (App., *infra*, A1-A11) will not be reported in the Federal Reporter, but is presently available in Lexis at 1995 U.S. App. LEXIS 9754 and in Westlaw at 1995 WL 375949; the publisher of the United States Patent Quarterly has indicated that it will be reprinted therein. The Federal Circuit order denying rehearing (App., *infra*, A12) is not reported.

The decisions of the United States District Court for the District of Minnesota are reported at 28 U.S.P.Q.2d 1225 and 852 F. Supp. 813, and appear in petitioner's appendix at A13-A29 and A30-A55, respectively.

JURISDICTION

The decision of the Court of Appeals was entered on April 26, 1995, and a timely petition for rehearing was denied on July 5, 1995 (App., *infra*, A12). The jurisdiction of this Court is pursuant to 28 U.S.C. § 1254(1).

STATUTES INVOLVED

35 U.S.C. § 100(d):

> **Definitions**
> (d) The word "patentee" includes not only the patentee to whom the patent was issued but also the successors in title to the patentee.

35 U.S.C. § 281:

> **Remedy for infringement of patent.**
> A patentee shall have remedy by civil action for infringement of his patent.

STATEMENT OF THE CASE

I. BACKGROUND

This is an action for patent infringement asserting U.S. Patent 4,762,129 (the "129 Patent"), relating to certain catheters which are used to perform balloon angioplasty (dilatation) procedures, *i.e.*, procedures intended to open blockages in the coronary arteries of heart patients.

The 129 Patent is owned by its inventor, Dr. Tassilo Bonzel, a German citizen. In 1988, Dr. Bonzel entered an agreement (the "Bonzel Agreement") with Schneider AG (hereinafter "Schneider (Europe)"), a Swiss corporation that makes and markets catheters outside of the United States. Schneider (Europe) is wholly owned by Shiley, Inc., which in turn is owned by Pfizer, Inc. ("Pfizer").

Under the Bonzel Agreement, Schneider (Europe) is given the exclusive, worldwide license to make, have made, use, and sell catheters of the kind claimed in the 129 Patent. Schneider (Europe) is also given the right to sue for infringement under the 129 Patent. As provided in the Bonzel Agreement:

> If any third party shall, in the reasonable opinion of Schneider [Europe], within any country in the Licensed Territory infringe any of the Licensed Patents, Schneider [Europe] shall promptly notify Bonzel. *Schneider [Europe] shall have the right to bring suit* and to take action in its own name or in the name of Bonzel where necessary. . . .

(App., *infra*, A58, emphasis added). In addition, the Bonzel Agreement provides Schneider (Europe) with the right "to grant sublicenses on such terms and conditions as Schneider [Europe] in its sole discretion may determine. . . ." (App., *infra*, A57).

In 1989, Schneider (Europe) sublicensed Schneider, Inc. (hereinafter "Schneider (USA)"). Schneider (USA) is a

separately managed Minnesota corporation headquartered in Minneapolis also owned by Pfizer.[2] Schneider (USA) makes catheters which it sells only within the United States.

The sublicensing agreement between Schneider (Europe) and Schneider (USA) (hereinafter the "Sublicense") is a two page document. The Sublicense grants Schneider (USA)

> a royalty-bearing, non-exclusive right and sublicense under the Proprietary Rights, Licensed Patents, and the Licensed Names to make, have made, use and sell, the Devices in the Territory, and to grant further sublicenses on such terms as [Schneider (USA)] in its sole discretion may determine, subject to the requirement that such terms shall be consistent with the rights granted [Schneider (Europe)] under the [Bonzel-Schneider] License Agreement.

(App., *infra*, A59-A60, ¶2).

The Sublicense contains further customary sublicensing provisions. Under paragraph three of the sublicense, for example, the amount of the non-exclusive royalty to be paid to Schneider (Europe) is set at "12% of Net Sales in the Territory." (App., *infra*, A60, ¶3). Paragraph six of the Sublicense is a merger clause, specifying that the Sublicense represents the entire agreement between the parties, and further indicating that any changes thereto must be made in writing. (App., *infra*, A60-A61, ¶6).

Nothing in the Sublicense purports to grant Schneider (USA) any right to bring suit under the 129 Patent. Moreover,

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[2] The details of the Pfizer management structure relative to the entities mentioned, and the district court analysis underlying its finding that Schneider (Europe) and Schneider (USA) are separate corporate entities with separate management, are discussed in the district court opinion. (App., *infra*, A18-A19).

Paragraph 5 of the Sublicense expressly provides that nothing in the agreement "shall be construed as creating any rights or obligations as between [Schneider (USA)] and Bonzel or between Bonzel and [Schneider (USA)]." (App., *infra*, A60, ¶5).

It is undisputed that the Sublicense has not been amended and remains in force in its original form. The parties similarly agree that the rights granted under the Sublicense are non-exclusive.

II. THE DISTRICT COURT PROCEEDINGS

The present action was brought in the names of both Schneider (Europe) and Schneider (USA), both independently seeking patent damages on account of SciMed's infringement of the 129 Patent.

A. SciMed's Standing Motion

In November of 1992, SciMed moved for partial summary judgment that Schneider (USA), as a non-exclusive sublicensee of the patent in suit, lacked standing to recover patent damages in its own right. SciMed contended that because Schneider (USA) is a non-exclusive licensee, and not a "patentee," Schneider (USA) lacked standing to recover damages under 35 U.S.C. § 281. SciMed further pointed out that Schneider (Europe) and Schneider (USA) are separate legal entities, and that the Sublicense between them does not give Schneider (USA) any of the attributes of ownership necessary under *Waterman v. Mackenzie*, 138 U.S. 252, 255 (1891), to recover patent infringement damages in Schneider (USA)'s own right.

At the same time, SciMed moved for an order limiting the recovery of Schneider (Europe) to reasonable royalty damages because Schneider (Europe) does not make or sell a competing catheter in the United States, and hence could not have lost any profits. SciMed pointed out that the foreign equivalents of the Bonzel patent had been found to be invalid,

and that United States patent law does not permit recovery for lost foreign sales where the patent owner does not manufacture patented products in the United States for competing use or sale abroad.

B. Schneider's Opposition

In opposition, the Schneider parties admitted that the Sublicense was non-exclusive, but nonetheless contended that Schneider (Europe) had "shared its rights" with Schneider (USA), and that Schneider (USA) was thereby entitled to "maintain its suit for infringement as co-plaintiff." (Schneider's Memorandum In Opposition to SciMed's Summary Judgment Motion On Plaintiffs' Damages Claims at 3). The Schneider parties further contended that the test for standing should not be whether Schneider (USA) had received exclusive rights, but rather, whether it had "a sufficient interest in the '129 patent to warrant its participation in this action." (*Id.* at 10).

C. The District Court's Ruling Concerning Standing

In May of 1993, the district court denied SciMed's motion, concluding that Schneider (USA) did have standing to collect damages as a co-plaintiff with Schneider (Europe). In its opinion on the issue, the district court began by noting that the "patentee," Dr. Bonzel, was not a party to this action, but that since patents are a form of personal property, actions for patent infringement may be brought by the assignee of that property. (App., *infra*, A22). The district court quoted *Waterman*, which sets forth three situations in which a transfer of rights under a patent is considered to be tantamount to an assignment: (1) when there is a transfer of "the whole patent, comprising the exclusive right to make, use and vend the invention throughout the United States"; (2) when there is the transfer of "an undivided part or share of that exclusive right"; and (3) when there is a transfer of "the exclusive right under the patent within and throughout a specified part of the United States." *Waterman*, 138 U.S. at

255. Pursuant to *Waterman*, in the first and third instances, the transfer vests in the licensee "a title in so much of the patent itself, with a right to sue infringers" in its own name. *Id.* In the second instance, the transfer vests in the licensee a right to sue infringers "jointly with the assignor." *Id.* As explained in *Waterman*, anything less than a transfer of one of these categories of rights, is not tantamount to a transfer of legal title and does not vest in the licensee the right to sue or recover for infringement. *Id.* (citations omitted).

The district court analyzed the standing issue, as the Schneider parties had urged it to do, by looking to whether Schneider (USA) was more than a "bare licensee." As stated by the district court:

> The policy behind disallowing a "bare licensee" from suing for patent infringement is that the "bare licensee" enjoys *no property rights in the patent*; rather, the "bare licensee" only enjoys the right to make or sell or use the patented object free from suit for infringement.

(App., *infra*, A23).

While expressly declining to decide whether Schneider (USA) could have brought this action in its own name without joining either Schneider (Europe) or the legal patent holder, Dr. Bonzel, the district court proceeded to determine

> whether a licensee who is granted *rights short of an assignment* could have joined the legal patent holder as co-plaintiff in a patent infringement action and recovered damages.

(App., *infra*, A26, emphasis added). As the district court explained, the issue amounted to whether the would-be co-plaintiff can show that it has some property interest more than a bare license, even though that interest is one which is "short of an assignment." The district court then concluded that because,

in its interpretation, the Sublicense gave Schneider (USA) the right to sublicense, Schneider (USA) had "*a property interest* in the '129 patent that provides Schneider (USA) the right to sue and recover damages as co-plaintiff in the present action." (App., *infra*, A26, emphasis added).

The right of Schneider (USA) to sublicense, and the corporate relationship between the Schneider parties, were considered by the district court to be "evidence of the parties' intent to transfer more than just a 'bare license.'" (App., *infra*, A27). SciMed's motion for summary judgment was accordingly denied, and Schneider (USA) was thereafter awarded damages in its own name.

Having concluded that *both* Schneider parties could collect damages, the district court then apportioned the right of collection between them. Having already found that Schneider (USA) was entitled to lost profit damages, the district court found the issue of Schneider (Europe)'s ability to recover lost profit damages in the United States to be moot. However, with respect to foreign sales, the district court concluded that if Schneider (Europe) could show with "reasonable probability that but for" the manufacture of infringing catheters in the United States Schneider (Europe) would have made the foreign sales made by SciMed, "Schneider (Europe) may recover lost profits for the damage resulting from its lost sales in foreign countries." (App., *infra*, A29). Accordingly, the district court allocated the right to collect lost profits damages between two separate corporate entities in a way which increased the total award beyond that available had either one of them been deemed to be the "patentee."

The action was tried to the bench during the fall of 1993. At that time, Schneider (USA) presented evidence concerning profits it lost in the United States due to SciMed's competition in that market, while Schneider (Europe) presented evidence concerning profits it lost on account of SciMed's foreign sales. Schneider (Europe) did not seek its damages for the royalties lost on account of the diminished sales of Schneider (USA).

The case was decided in favor of the Schneider parties, and $63.5 million in damages and prejudgment interest was awarded. Of this amount, about $37 million was awarded to Schneider (USA) (including about $20 million for Schneider (USA)'s lost profits, about $14 million in royalties at 15%, and about $3 million in interest). Approximately $25.5 million was awarded to Schneider (Europe) for its lost profits on foreign sales. An additional $1 million was awarded for damages for free goods.

III. FEDERAL CIRCUIT PROCEEDINGS

Following entry of judgment, SciMed appealed the award of damages to Schneider (USA) to the Federal Circuit. In support of its appeal, SciMed pointed out that the district court failed to make the findings required to justify an award of damages to Schneider (USA), and that no such findings were possible because Schneider (USA) holds only a non-exclusive license under the patent in suit. In this regard, SciMed stressed that the standing requirements under 35 U.S.C. § 281 and *Waterman*, simply had not been, and could not be, met.

In opposition, while the Schneider parties argued that Schneider (Europe) did have the "exclusive right to practice the invention in this country" (Brief of Schneider (Europe) and Schneider (USA) Inc. in the Federal Circuit at 23), they did not contend that the license to Schneider (USA) was exclusive. Instead, notwithstanding the fact that Schneider (Europe) does not distribute its products within the United States or through Schneider (USA), the Schneider parties argued that "Schneider (Europe) . . . *intended* that Schneider (USA) would be the exclusive *distributor* of the invention in the United States."[3]

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[3] The meaning of "distributor" in this context is unclear, as Schneider (USA) sells only products of its own manufacture, made within the United States. (App., *infra*, A19).

(*Id.* at 24, emphasis added). On this basis, the Schneider parties contended that damages could be awarded to Schneider (USA) "without a showing that it had an exclusive license." (*Id.* at 40).

A. The Majority Opinion

Following argument, a majority of the three judge panel in the Federal Circuit (Circuit Judges Mayer and Smith) concluded that Schneider (USA) did have standing to collect damages in this action.[4] The majority adopted the district court's theory permitting a non-exclusive licensee to recover damages for infringement provided that it is more than a "'bare licensee' acting alone . . . ." (App., *infra*, A5). As explained by the Federal Circuit panel majority:

> The district court analyzed Schneider's corporate structure, the intent of the parties executing the agreement, and their business conduct under the agreement. It concluded this agreement was "an assignment that provides Schneider (USA) the ability to sue and recover for patent infringement as co-plaintiff with Schneider (Europe)." Similar suits have been approved where necessary to protect the rights of all the parties and to bring a resolution to the underlying dispute. *See Kalman*, 914 [F.2d] at 1481-82, 16 USPQ2d at 1099; *Weinar v. Rollform, Inc.*, 744 F.2d 797, 806-07, 223 USPQ 369, 374 (Fed. Cir. 1984). We see no reason to disagree with the district court here.

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[4] Also appealed were issues concerning claim interpretation and infringement, as well as issues relating to the level of skill and knowledge of persons of ordinary skill in the art, and the application of such to the patent in suit.

(App., *infra*, A5).

B. The Dissenting Opinion

Judge Bryson sharply disagreed with the panel majority on only one issue -- "the right of Schneider (USA) to recover damages for infringement." (App., *infra*, A8). As recognized by Judge Bryson, to have standing to recover damages for patent infringement, a party must have the right to exclude others from making, using, or selling the invention. (*Id.*) As an exclusive license conveys a promise of exclusivity under the patent, an exclusive licensee derives standing to recover for infringement from its agreement with the patentee. (*Id.*) "A nonexclusive licensee, on the other hand, has no protectable interest in the patent rights, but only a promise not to be sued for infringement." (*Id.*) Judge Bryson went on to explain that, as a non-exclusive licensee, Schneider (USA) would not have the right to recover damages for infringement.

> The district court did not find that Schneider (USA) is an exclusive licensee, and in fact the licensing agreement between Schneider (Europe) and Schneider (USA) expressly provides that the license granted to Schneider (USA) is non-exclusive. Schneider (USA) would therefore appear to be in the same position as other bare licensees, who enjoy the right not to be sued for conduct authorized by the license, but who have no right to prevent others from infringing the patent rights, and no right to recover damages when others do so.

(App., *infra*, A8-A9). Judge Bryson stated that a non-exclusive licensee "'has no property interest in the monopoly of the patent, nor any contract with the patent owner that others shall not practice the invention,'" but rather "'merely a privilege that protects him from a claim of infringement by the owner of the

patent monopoly.'" (App., *infra*, A8, quoting *Western Elec. Co. v. Pacent Reproducer Corp.*, 42 F.2d 116, 118, 5 U.S.P.Q. 105, 106 (2d Cir.), *cert. denied*, 282 U.S. 873 (1930)). As such, "'the patent owner may freely license others, or may tolerate infringers, and in either case no right of the patent licensee is violated.'" (*Id.*) Thus, while a non-exclusive licensee may suffer pecuniary loss due to others practicing the invention, "'it does him no legal injury.'" (App., *infra*, A8, quoting *Western Elec.*, 42 F.2d at 118).

Judge Bryson concluded that the Sublicense between Schneider (Europe) and Schneider (USA) "did not constitute an assignment of the patent rights, because Schneider (Europe) retained full ownership rights in the patent," and further concluded that "[n]one of the district court's several explanations for awarding damages to Schneider (USA) supports the judgment in light of the governing principles." (App., *infra*, A9). Accordingly, Judge Bryson stated that the case should have been remanded to the district court "for further findings on Schneider (USA)'s right to recover damages and, if necessary, for a redetermination of the judgment based on the court's disposition of that issue." (App., *infra*, A11).

C. Reconsideration And Rehearing

On May 9, 1995, SciMed moved for reconsideration and for rehearing *en banc*, pointing out that Judge Bryson was correct in noting that the majority had improperly awarded patent damages to a non-exclusive licensee, a result directly inconsistent with both 35 U.S.C. § 281 and *Waterman v. Mackenzie*, 138 U.S. 252 (1891). On May 17, 1995, the Federal Circuit requested that the Schneider parties respond. On July 5, 1995, the Federal Circuit issued a one page order in which it indicated, without explanation, that it would not reconsider or rehear the case. (App., *infra*, A12).

REASONS FOR GRANTING THE WRIT

IV. CERTIORARI IS NECESSARY TO CORRECT THE FEDERAL CIRCUIT'S ERROR ON AN IMPORTANT QUESTION OF FEDERAL LAW

If certiorari is not granted in this case, one of the largest patent damages awards in history ($37 million) will be given to a party which, under existing statutes and Supreme Court precedent, has no standing to collect patent damages at all.[5] This award to Schneider (USA) is directly contrary to both the statutory provisions 35 U.S.C. §§ 281 and 100(d) (which explicitly limit standing to the statutory "patentee") and to this Court's precedent, such as *Waterman v. Mackenzie*, 138 U.S. 252 (1891).

Moreover, in the absence of a grant of certiorari, the Schneider parties will be collectively awarded more in patent damages ($68 million)[6] than could have been awarded had either

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[5] According to Licensing Law and Business Report, Vol. 7, No. 7 (May-June 1995), the award in this case is approximately the eighth largest in the history of the Federal Circuit. Moreover, even if the portion of the award to Schneider (Europe) were ignored, the amount awarded to Schneider (USA) would still keep this case in or near the top ten awards.

[6] The district court awarded $63.5 million in damages and prejudgment interest, including about $37 million awarded to Schneider (USA) (about $20 million for Schneider (USA)'s lost profits, about $14 million in royalties at 15%, and about $3 million in interest), and approximately $25.5 million awarded to Schneider (Europe) relating to its lost profits on foreign sales. An additional $1 million was awarded for damages for free goods. After SciMed's motion to stay issuance of the mandate was denied, the mandate issued, and

of them been deemed to be the "patentee," as required under 35 U.S.C. § 281. For example, had the district court recognized that only Schneider (Europe), as the assignee of the patent, could recover for its own losses (and not those of its sublicensee), then Schneider (USA) would not have been entitled to collect its lost profits. Instead, Schneider (Europe) would have been awarded its lost royalty income, *i.e.*, the 12% royalty Schneider (USA) would have paid on sales it would have made but for SciMed's infringement. This difference alone would have reduced the damages awarded by an amount in excess of $15 million.[7]

Because a $37 million award has been gained by a non-exclusive licensee, and because two co-plaintiffs have together attained a previously unachievable damage award, the implications of this case extend far beyond its particular facts. If the decisions below are allowed to stand, 35 U.S.C. § 281 will henceforth be interpreted as creating a new class of patent plaintiffs -- non-exclusive licensees holding somewhat more than a "bare license" under the asserted patent, but less then that which would entitle it to sue as a "patentee." As a result, the absolute amount of damages awarded for any given infringement may rise dramatically, and litigations brought by patentees and their various non-exclusive licensees and/or sublicensees will inevitably ensue.

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the judgment, calculated to be $68,052,763.00 with interest, was paid.

[7] Schneider (USA)'s lost sales were eventually determined to be about $53.5 million on which lost profits were awarded at a rate of 38%. The 15% royalty award was eventually applied to about $92 million in SciMed sales, the remainder being prejudgment interest. Had a 12% royalty instead have been applied to only the lost profits award, the damages, which then would be due to Schneider (Europe), would have been at least $15 million less.

The need for review is evident from the importance of the question involved -- Who has standing to sue and recover for patent infringement under 35 U.S.C. § 281? The Federal Circuit has interpreted this statute in a manner that is not only contrary to its express language, but is squarely at odds with controlling Supreme Court precedent, such as *Waterman v. Mackenzie*, 138 U.S. 252 (1891). Although the Federal Circuit opinion is "not citable as precedent," (App., *infra*, A1), the opinion is a public record, and the size of the judgment will attract substantial notice from the patent bar. It is presently available on both Lexis and Westlaw (1995 U.S. App. LEXIS 9754 and 1995 WL 375949), and the publisher of the United States Patent Quarterly intends to reprint it as well. The district court's opinions were published at 28 U.S.P.Q.2d 1225 and 852 F. Supp. 813, and the Federal Circuit's affirmance is noted in the Federal Reporter (60 F.3d 839). The disposition of this case will unquestionably generate uncertainty among the patent bar and promote additional litigation brought by plaintiffs who would not have had standing under either the clear terms of 35 U.S.C. §§ 281 and 100(d), or well settled principles enunciated by this Court. A definitive ruling is needed from this Court to resolve this conflict, and to interpret this important statutory provision.

Congress clearly intended that access to this Court would be available in instances such as this. *See e.g., Eli Lilly v. Medtronic*, 496 U.S. 661 (1990). This Court has previously granted certiorari in cases decided by the Federal Circuit when important statutory issues were involved. It should do so again in this case to prevent an unjust award, and to clarify the requirements for standing in patent cases.

V. THE FEDERAL CIRCUIT ERRED IN AFFIRMING AN AWARD OF DAMAGES TO A NON-EXCLUSIVE LICENSEE

The issue facing the Federal Circuit was the standing of a licensee to recover damages in a patent infringement action. The operative document is a two-page license agreement between

the plaintiffs, Schneider (Europe) and Schneider (USA), in which Schneider (USA) is granted a "non-exclusive" license to the patent in suit. (App., *infra*, A59-A61). That document should have been dispositive on the issue, and pursuant to the applicable statute, 35 U.S.C. § 281, and relevant precedent from this Court, Schneider (USA) should have been found to lack standing to recover for infringement of the subject patent. Instead, both courts below ignored both the express statutory language limiting the right to recover patent damages to the patentee, and the fundamental distinction between an assignee, *i.e.*, one who has title in the patent, and a licensee, *i.e.*, one whose rights in the patent are something short of a full assignment or transfer, as set forth in this Court's precedent, such as *Waterman v. Mackenzie*, 138 U.S. 252 (1891).

A. Only The Legal Title Holder Of A Patent Has A Right To Recover Damages For Its Infringement

It is axiomatic that standing is required before any court may award the relief claimed. *Whitmore v. Arkansas*, 495 U.S. 149, 154 (1990) ("It is well established . . . that before a federal court can consider the merits of a legal claim, the person seeking to invoke the jurisdiction of the court must establish the requisite standing to sue.") In patent cases, the rights conferred by a patent are established not by case law, but rather, by statute:

> Patent property is the creature of statute law and its incidents are equally so and depend upon the construction to be given to the statutes creating it and them, in view of the policy of Congress in their enactment.

Crown Die & Tool Co. v. Nye Tool & Machine Works, 261 U.S. 24, 40 (1923).

Standing to sue and collect for patent infringement is conferred under the patent laws by 35 U.S.C. § 281, which states:

> **§ 281 Remedy for infringement of patent**
> A patentee shall have remedy by civil action for infringement of his patent.

(July 19, 1952, ch. 950, 66 Stat. 812). Accordingly, the right to sue for infringement is a statutory right granted only to the "patentee." The patent laws expressly define the meaning of "patentee" as follows:

> **§ 100 Definitions**
> (d) The word "patentee" includes not only the patentee to whom the patent was issued but also the successors in title to the patentee.

(July 19, 1952, ch. 950, §1, 66 Stat. 797.) Thus only the legal title holder of a patent has the right to recover damages for its infringement.[8]

In determining whether a party who is not a record title holder of a patent is nonetheless a "successor in title to the patentee," the courts have uniformly applied the standard

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[8] This is entirely consistent with the scope of rights granted by a patent, as defined in 35 U.S.C. § 154, as follows:

> [e]very patent shall . . . grant to the *patentee*, his heirs *or assigns*, . . . the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States . . . .

(Emphasis added).

enunciated by this Court in *Waterman v. Mackenzie*, 138 U.S. 252 (1891), as follows:

> The patentee or his assigns may, by instrument in writing, assign, grant and convey, either, 1st, the whole patent, comprising the exclusive right to make, use and vend the invention throughout the United States; or, 2d, an undivided part or share of that exclusive right; or, 3d, the exclusive right under the patent within and throughout a specified part of the United States. Rev. Stat. § 4898. A transfer of either of these three kinds of interests is an assignment, properly speaking, and vests in the assignee a title in so much of the patent itself, with a right to sue infringers; in the second case, jointly with the assignor; in the first and third cases, in the name of the assignee alone.

Id. at 255. As *Waterman* explains:

> Any assignment or transfer, short of one of these, is a mere license, giving the licensee no title in the patent, *and no right to sue at law in his own name for an infringement.*

Id. (citations omitted, emphasis added).

The *Waterman* rule requiring that plaintiffs hold exclusive rights in order to have standing to enforce a patent recognizes that only a person holding exclusive rights, *i.e.*, the right to the exclusivity in the marketplace, has the legal right to complain that it is being damaged by entry of another into that marketplace. Implicit in an exclusive license is the promise that others, including the licensor, shall be excluded from practicing the invention within that specified territory. *See Independent Wireless Tel. Co. v. Radio Corp.*, 269 U.S. 459, 468-69 (1926). On the other hand, a non-exclusive licensee simply has the right

to practice the patented invention without the fear of being sued for infringement, not a right to complain that it faces competition when operating under that license. "As a license passes no interest in the monopoly, it has been described as a mere waiver of the right to sue by the patentee." *Henry v. A.B. Dick, Co.*, 224 U.S. 1, 24 (1912).

This Court has consistently recognized that, for a licensee to maintain a suit for infringement, the license agreement must convey either the whole patent or an undivided part of it "within and throughout a specified part of the United States." *Bliss Co. v. United States*, 253 U.S. 187, 192 (1920), citing *Waterman*, 138 U.S. at 255. As explained by Chief Justice Taney in *Gayler v. Wilder*, 51 U.S. (10 How.) 477 (1850):

> [T]he patentee may assign his exclusive right within and throughout a specified part of the United States, and upon such an assignment the assignee may sue in his own name for an infringement of his rights. But in order to enable him to sue, the assignment must undoubtedly convey to him the entire and unqualified monopoly which the patentee held in the territory specified, -- excluding the patentee himself, as well as others. And any assignment short of this is a mere license.

Id. at 494.

As confirmed in *Waterman*, the exclusive rights conferred by a patent cannot be divided such that there are two or more successors in interest to the patentee within a given territory:

> The language used by the court in [*Waterman*] was a reaffirmance of that employed by Chief Justice Taney in *Gayler v. Wilder*, to the effect that the monopoly granted by the patent laws is one entire thing, and cannot be

> divided into parts, except as authorized by those laws; and that the right of the patentee to assign his monopoly was limited, either, first, to the whole patent, comprising the exclusive right to make, use, and vend the invention throughout the United States; or, second, to an undivided part or share of that exclusive right; or, third, to the exclusive right under the patent within and throughout a specified territory.

Pope Mfg. Co. v. Gormully & Jeffery Mfg. Co., 144 U.S. 248, 251 (1892).

Important public interest considerations underlie the policy of prohibiting a patentee from dividing the exclusive rights of a patent into an unlimited number of parts within the same territory, as to do so could subject an alleged infringer to multiple suits and to successive recoveries of damages by different persons holding a portion of the rights in a specified territory. As this Court explained in *Gayler*, Congress did not intend to recognize multiple patent owners, since such a division

> would subject a party who, under a mistake as to his rights, used the invention without authority, to be harassed by a multiplicity of suits instead of one, and to successive recoveries of damages by different persons holding different portions of the patent right in the same place.

Gayler, 51 U.S. at 494-95; *see also Pope*, 144 U.S. at 250.

As a result of the underlying considerations, while a transfer of a portion of patent rights may effectively define the respective rights between the licensor and licensee, the receipt of any portion of the rights under a patent may not carry with it the right to sue third parties:

> Unquestionably, a contract for the purchase of any portion of the patent right may be good as between the parties as a license, and enforced as

> such in the courts of justice. But the legal right in the monopoly remains in the patentee, and he alone can maintain an action against a third party who commits an infringement upon it.

Gayler, 51 U.S. at 495.

B. It Is Undisputed That Schneider (USA) Is Not The Exclusive Licensee Of The 129 Patent

It is undisputed that Schneider (USA) is a non-exclusive licensee, and as such, does not possess such *exclusive* rights to the patent that it may be considered either the "patentee" or "successor in title" to that patent. Under these circumstances, it is not surprising that neither the district court nor the Federal Circuit found that Schneider (USA) had standing to sue in its own name. Indeed, the district court "expressly decline[d] to decide whether Schneider (USA) could have brought this action in its own name without joining either Schneider (Europe) or the legal patent holder, Dr. Bonzel." (App., *infra*, A24).

C. Schneider (USA) Does Not Have The Required Undivided Part Or Share Of An Exclusive Right Necessary To Recover As A Co-Plaintiff Under Waterman

In contending that Schneider (USA) should nonetheless be entitled to recover in its own right, the Schneider parties argued that Schneider (USA) had a "share" of the exclusive right in the 129 Patent. In this context, the district court concluded, and the Federal Circuit affirmed, that Schneider (USA) had standing to recover damages as a "co-plaintiff" since Schneider (Europe) was already a party to the action. (App., *infra*, A5).

Both the district court and the Federal Circuit majority failed to recognize that parties who "share" rights to a patent do not necessarily share rights which are either "undivided" or

"exclusive" as to each of them. To the contrary, Schneider (Europe) *divided* its rights in granting a non-exclusive U.S. license to Schneider (USA).[9] Further, Schneider (Europe) retained the right to grant additional sublicenses and thereby further divide its rights. (Schneider's Memorandum In Opposition to SciMed's Summary Judgment Motion On Plaintiffs' Damages Claims at 22). As such, the rights of sublicensee Schneider (USA) are clearly inferior to those of its licensor, Schneider (Europe), and can in no way be considered to be "an *undivided* part or share" of an "*exclusive right*," as *Waterman* requires to confer standing as a co-plaintiff. As noted by Judge Bryson:

> The district court based its ruling in part on its conclusion that the licensing agreement granted Schneider (USA) "the rights it needed to market the dilatation catheters in the territories it was responsible for," including the right to grant sublicenses to others. But having the rights necessary to function as a distributor of a patented product is not the same as having a proprietary interest in the patent. A distributor, simply by virtue of his role as a distributor, does not "shar[e] the property rights represented by a patent," *Weinar v. Rollform, Inc.*, 744 F.2d 797, 807, 223 USPQ 369, 374-75 (Fed. Cir. 1984), *cert. denied*, 470 U.S. 1084 (1985). And the right to grant sublicenses likewise does not grant a right against the patent holder unless the sublicensing right is exclusive, *i.e.*, unless the agreement prohibits the patent holder from

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[9] The express terms of the controlling Sublicense specify that the rights given to Schneider (USA) are *non-exclusive*. (App., *infra*, A59-A60, ¶2; *see also*, App., *infra*, A60, ¶5).

> granting other licenses. The license agreement in this case does not expressly provide that the sublicensing right is exclusive, and the district court did not find that the agreement should be interpreted to convey an exclusive sublicensing right.

(App., *infra*, A9). Judge Bryson also noted the district court's erroneous reliance on the corporate relationship between Schneider (Europe) and Schneider (USA) as a basis for establishing standing. In his dissent, he criticized the district court for its analysis of

> "the circumstances surrounding the Sublicensing Agreement and the relation of Schneider (USA) and Schneider (Europe)." In particular, the district court relied on the fact that the two companies "operate in tandem with each other as part of a network of corporate entities aimed at marketing the dilatation catheter protected by the '129 patent worldwide." Although Schneider (USA) and Schneider (Europe) are closely related, the district court did not find that they share property rights in the patent. If the two companies maintain a separate existence, with distinctive rights in property, their rights to sue and to recover damages based on their respective property interests must be examined separately. The district court's suggestion that the two entities operate "in tandem" is not sufficient to establish that they share the rights in the '129 patent that are the source of the right to recover damages for infringement. *See Contracting Div., A.C. Horn Co. v. New York Life Ins. Co.*, 113 F.2d 864, 866, 46 USPQ 435, 437-38 (2d Cir. 1940) (close relationship between

> corporations not sufficient to establish that suit by one is in reality suit by another for purposes of standing to sue for patent infringement).

(App., *infra*, A9-A10).

The district court apparently confused the fact that Schneider (USA) had some rights under the patent beyond those of a "bare licensee" with *Waterman's* requirement that any co-plaintiff share "an *undivided* part or share of [an] *exclusive* right." *Waterman*, 138 U.S. at 255. However, as Judge Bryson correctly noted in his dissent to the Federal Circuit panel decision, the license itself is expressly non-exclusive (App., *infra*, A8), and the fact that Schneider (USA) received some rights is simply "not the same as having a proprietary interest in the patent." (App., *infra*, A9). As further stated by Judge Bryson:

> The license . . . did not constitute an assignment of the patent rights, because Schneider (Europe) retained full ownership rights in the patent.

(App., *infra*, A9). Indeed, the district court itself recognized that the rights of Schneider (USA) fell "short of an assignment."[10] (App., *infra*, A26).

Further, while the fact that the Schneider parties share a corporate affiliation no doubt played a part in the district court's conclusion, the district court nowhere explains how the existence of such a general affiliation could supersede the written Sublicense which the two separate legal entities entered to define the nature of their relationship as to the patented subject matter. Nor did the district court provide any cogent explanation as to

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[10] Since the governing law is so clear, and the result so clearly erroneous, this case is appropriate for summary reversal.

how the existence of such an affiliation could negate the statutory requirements for standing.

Where, as here, the licensor retains a property interest in the patent and only a nonexclusive license is granted, any rights of the licensee, as a co-plaintiff, must be enforced "through or in the name of the owner of the patent." *Waterman*, 138 U.S. at 255. Schneider (USA)'s lack of exclusivity in the U.S. market goes to the heart of the reason why it should not be entitled to recover damages on account of the entry of another into that market. While Schneider (USA) obtained a license protecting it from suit under the patent, it obtained no right to protect itself from entry into its market by another, such as yet another Schneider (Europe) sublicensee. Rather, the right to recover for unauthorized intrusion into the marketplace is retained by the licensor, in this case, Schneider (Europe).

D. The Public Will Be Adversely Affected If This Ruling Is Allowed To Stand

This is a rare case where, although the Federal Circuit opinion is "not citable as precedent," (App., *infra*, A1), the opinion will nonetheless be recognized as *de facto* precedent by the patent bar. Indeed, the fact that the Federal Circuit made this decision non-precedential signals that different standing requirements should be applied to corporate affiliates, thereby expanding the statutory definition of who is a "patentee."[11]

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[11] The uncertainty created by the majority rule is compounded by the apparent conflict between this decision and other decisions of the Federal Circuit, such as *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 35 U.S.P.Q.2d 1065 (Fed. Cir. 1995), petition for cert. filed, July 1995, wherein the Federal Circuit discusses the principles espoused in *Waterman*.

This result invites licensees to align themselves as co-plaintiffs in patent infringement actions so that they may share in substantially increased damage awards. The sheer magnitude of the damages awarded in this case ensures that such litigation will ensue. Suits by non-exclusive licensees may be expected to multiply, thereby subjecting an infringer to a substantial risk of incurring multiple and/or inconsistent obligations to any number of parties claiming an interest in a patent.

For example, in this case, the lower courts selectively treated the licensor as the "patentee" with the right to recover damages as to certain acts of infringement, while treating the licensee as the "patentee" with the right to recover as to other acts of infringement. The courts thereby increased the amount of damages recoverable such that the highest conceivable damage figure was awarded. As a result, far greater damages were assessed in this case than could ever have been awarded had the action been brought solely by "the patentee," as required by statute.

The ramifications of the lower courts' decisions extend far beyond the present case. These decisions signal approval of licensing schemes that divide the monopoly of a patent in the same territory. Alleged infringers may now be exposed to claims from large numbers of corporate affiliates of the patentee, each of which would, according to the decisions of the lower courts, be entitled to recover damages as long as they could show that they had more than a "bare license" and that they were "working in tandem" with the co-plaintiff patentee. Such an approach subverts the patent statute by impermissibly expanding the limited class of persons empowered by Congress to sue for infringement. Such a result is clearly contrary to the express terms of the governing statues, the underlying intention of Congress, and prior decisions of this Court. In this era of multinational companies, with complex corporate organizations, the complexity of patent litigation, and risk to potential

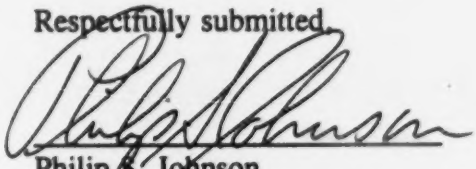
infringers, will multiply if the decisions are allowed to stand.

The majority rule further suggests that, in the event of litigation, corporate-affiliate co-plaintiffs will not be held to the express terms of the agreements they have entered. For example, in this particular case, the co-plaintiffs deliberately and undisputedly entered a Sublicense that expressly defined the rights of Schneider (USA) as non-exclusive, thereby gaining certain business and tax advantages by avoiding any implication that Schneider (USA) was the assignee of the patent in suit. Indeed, Pfizer's Mr. Ross testified that the "general practice" of such "licenses or sub-licenses . . . was that they were to be non-exclusive," to avoid having the license constitute an assignment of the patent such that "a question of deductibility of the royalty payments" might arise. (Ross Deposition 4981:1-23). When it came to litigation, however, Schneider (USA) claimed the rights of an assignee as to certain acts of infringement, including the right to recover damages therefor. Corporate affiliates such as the Schneider parties should not be allowed to have it both ways; if their original election is to license on a non-exclusive basis, as was the case here, then they should be held to that agreement in determining their infringement recovery. Clearly, the public interest is not served by allowing affiliated multi-national companies to benefit from tax saving agreements during the normal course of business, while permitting them to ignore the express terms of such agreements should it become profitable to do so when litigation arises. Under the circumstances, the public interest clearly favors return to statutory standing requirements enunciated in 35 U.S.C. §§ 281 and 100(d).

CONCLUSION

For the foregoing reasons, a writ of certiorari should by issued to review the judgment of the United States Court of Appeals for the Federal Circuit.

Respectfully submitted,



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PETITIONER'S APPENDIX

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NOTE: Pursuant to Fed. Cir. R. 47.6, this disposition is not citable as precedent. It is a public record. The disposition will appear in tables published periodically.

United States Court of Appeals for the Federal Circuit

94-1317, -1410, -1456

SCHNEIDER (EUROPE) AG
and SCHNEIDER (USA) INC.,

Plaintiffs/Cross-Appellants,

v.

SCIMED LIFE SYSTEMS, INC.,

Defendant-Appellant.

DECIDED: April 26, 1995

Before MAYER, Circuit Judge, SMITH, Senior Circuit Judge, and BRYSON, Circuit Judge.

Concurring in part and dissenting in part opinion filed by Circuit Judge BRYSON.

PER CURIAM.

Schneider (Europe) AG and Schneider (USA) Inc., brought this action against SciMed Life Systems, Inc., for

infringement of United States Patent No. 4,762,129.[1] The United States District Court for the District of Minnesota held that the patent was not invalid, was infringed, and that the infringement was not willful. Schneider (Europe) AG v. SciMed Life Sys., Inc., 852 F. Supp. 813 (D. Minn. 1994). We affirm.

To prove a claim was obvious, an accused infringer must establish by clear and convincing evidence, 35 U.S.C. § 282 (1988), that a person of ordinary skill in the relevant art would have found the claimed subject matter obvious in light of the prior art at the time the invention was made, id. § 103. Although obviousness is ultimately a legal conclusion, it rests upon underlying findings of fact. Kimberly-Clark Corp. v. Johnson & Johnson, 745 F.2d 1437, 1444, 223 USPQ 603, 606 (Fed. Cir. 1984). The district court's determination of the hypothetical person of ordinary skill in the relevant art is one such finding of fact subject only to review for clear error. Graham v. John Deere Co., 383 U.S. 1, 17 (1966); Hybritech, Inc. v. Monoclonal Antibodies, 802 F.2d 1367, 1379-80, 231 USPQ 81, 90 (Fed. Cir. 1986).

The district court found that a person of ordinary skill in this art in 1984 was "a practicing interventional cardiologist who performed dilation or coronary angioplasty dilation procedures" and included knowledgeable percutaneous transluminal coronary angioplasty (PTCA) practitioners such as those who had testified at trial. Viewing the prior art from this perspective, the court held that the '129 invention would not have been obvious in 1984.

Although the level of ordinary skill in the relevant art is a question of fact, SciMed claims that the "legal correctness of [the district court's] determination" is at issue because it misread and misapplied Standard Oil Co. v. American Cyanamid Co. 774 F.2d 448, 227 USPQ 293 (Fed. Cir. 1985). SciMed contends, therefore, that we may review the district court's finding free from the clear error standard. We do not believe that the district

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[1] United States Patent No. 4,762,129 issued August 9, 1988. Reexamination Certificate B1 4,762,129 issued July 2, 1991.

court erred in applying Standard Oil or in is factual finding of the level of ordinary skill in the art.

Standard Oil stated: "A person of ordinary skill in the art is also presumed to be one who thinks along the line of conventional wisdom in the art and is not one who undertakes to innovate, whether by patient, and often expensive, systematic research or by extraordinary insights, it makes no difference which." 774 F.2d at 454, 227 USPQ at 298 (citation omitted). SciMed argues that the district court isolated this passage and misconstrued it to per se eliminate engineers, designers, and others who experiment in a given field from the definition of ordinary skill in the art. Extrapolating from this, SciMed contends the district court believed only a product "user," not an engineer or designer, could be a person of ordinary skill in this or any other art. SciMed also argues that the district court further misread Standard Oil to require limiting the prior art to only those references that a majority of "users" would consider relevant because only those references would constitute the "conventional wisdom." SciMed misreads the district court's opinion on both points.

The district court did not suggest a general per se rule eliminating engineers or designers from being considered persons of ordinary skill. Nor did it state that only product "users" were persons of ordinary skill. Instead, the court evaluated the state of the art in the relevant field at the relevant time and found it was in its infancy and that practicing angioplastic surgeons "designed the basic concepts in dilation in 1984 and showed them to engineers who built them." Rather than propounding a per se rule, the district court evaluated the level of skill when this particular field was far less advanced than it is now and as a factual matter found that engineers and designers were not of ordinary skill at that time.

Since the court's interpretation and application of Standard Oil was not legal error, we review the court's finding for clear error. Although the appellate record might suggest more than one appropriate level of ordinary skill, we will not reverse simply because we might have chosen a different one.

In determining the person of ordinary skill in the art, the district court found that "the PTCA field was in its infancy" and that "[t]here were only about 200 physicians performing angioplasty procedures in the United States by 1984. Only about 300 were performing them worldwide." In this infant field, the court found that engineers responded to the directions of the physicians. The court also heard testimony that the physicians determined which safety features to use in catheter design. Finally, one of SciMed's own witnesses acknowledged that persons of ordinary skill in the art included the same "knowledgeable PTCA practitioners" that the district court specifically included within its definition.

SciMed also misreads the court's analysis of the "conventional wisdom." The court did not state or imply that Standard Oil, 774 F.2d at 454, 227 USPQ a 298, required limiting the prior art to majority preferences in all cases. Rather, based on the testimony at trial, the court found a strong majority preference that had a substantial bearing on whether the '129 invention would have been obvious in 1984. That majority believed a catheter with a full-length guide lumen was necessary to accommodate specific medical functions. The '129 invention ran contrary to this view.

Consideration of this evidence is exactly what Standard Oil encourages. It does not require, nor did the district court interpret it to require, that minority views be dismissed without consideration when evaluating prior art. Nor did the district court refuse to consider the general knowledge in this field. Rather, it considered the strength and conviction of the conventional wisdom in the field at the time and concluded that it would have a significant impact on a person of ordinary skill when combining references to determine obviousness. SciMed is fundamentally wrong in contending that conventional wisdom should play no part in determining obviousness.

SciMed next claims that the district court should not have allowed Schneider (USA) to remain in this case as a co-plaintiff. It is undisputed that Schneider (Europe) has standing to sue for infringement of its patent, but SciMed claims that Schneider (USA) had only a "non-exclusive" sublicense that does not confer standing to recover infringement damages.

A "bare licensee" acting alone may not sue and recover damages for patent infringement. Waterman v. Mackenzie, 138 U.S. 252, 255 (1891); Kalman v. Berlyn Corp., 914 F.2d 1473, 1481, 16 USPQ2d 1093, 1099 (Fed. Cir. 1990). But a court does not look solely to the words of the agreement to determine the true nature of the license. Waterman, 138 U.S. at 256 ("Whether a transfer of a particular right or interest under a patent is an assignment or a license does not depend upon the name by which it calls itself, but upon the legal effect of the provisions."); Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A., 944 F.2d 870, 874-75, 20 USPQ2d 1045 (Fed. Cir. 1991) (court looked to agreements and surrounding circumstances to hold that transfer was an assignment). The district court analyzed Schneider's corporate structure, the intent of the parties executing the agreement, and their business conduct under the agreement. It concluded this agreement was "an assignment that provides Schneider (USA) the ability to sue and recover for patent infringement as co-plaintiff with Schneider (Europe)." Similar suits have been approved where necessary to protect the rights of all the parties and to bring a resolution to the underlying dispute. See Kalman, 914 at 1481-82, 16 USPQ2d at 1099; Weinar v. Rollform, Inc., 744 F.2d 797, 806-07, 223 USPQ 369, 374 (Fed. Cir. 1984). We see no reason to disagree with the district court here.

SciMed also contends that the district court error in awarding Schneider (Europe) lost profits for SciMed's foreign sales of infringing catheters it manufactured in the United States. Citing Trell v. Marlee Electronics Corp., 912 F.2d 1443, 1445, 16 USPQ2d 1059, 1061 (Fed. Cir. 1990), and Lindemann Maschinenfabrik GmbH v.American Hoist & Derrick Co., 895 F.2d 1403, 1406 n.2, 13 USPQ2d 1871, 1874 n.2 (Fed. Cir. 1990), SciMed argues that Schneider (Europe) could, at most, recover a reasonable royalty for the infringing manufacturing in the United States, not lost profits resulting from SciMed's foreign sales. We are aware of no rule that a plaintiff cannot recover lost profits for foreign sales of infringing products manufactured in the United States. Datascope Corp. v. SMEC, Inc., 879 F.2d 820, 824-27, 11 USPQ2d 1321, 1323-26 (Fed. Cir. 1989), applied the four-prong test from Panduit Corp. v.

Stahlin Brothers Fibre Works, Inc., 575 F.2d 1152, 1156, 197 USPQ 726, 729-30 (6th Cir. 1978), to determine whether a plaintiff could recover lost profits for the infringer's foreign sales of infringing products manufactured in the United States. Although the court concluded that the Panduit criteria for lost profits were not met, 879 F.2d at 827, 11 USPQ2d at 1326, it would have been completely unnecessary to consider this test if that plaintiff had been prevented from recovering lost profits in the first instance. The district court did not err in awarding lost profits. We are similarly unconvinced that the parties' remaining assignments of error warrant reversal of the judgment.

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United States Court of Appeals for the Federal Circuit

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v.

SCIMED LIFE SYSTEMS, INC.,
Defendant-Appellant.

BRYSON, Circuit Judge, concurring in part and dissenting in part.

Although this case presents several difficult issues, our task on appeal has been made considerably easier by the detailed and careful work of the district judge who tried the case. Most of the issues presented on appeal turn on facts found by the district court; this court is properly reluctant to second-guess the district court on those issues, even if we might have resolved some of them differently had we been sitting as the triers of fact.

There is considerable force, in my view, to SciMed's contention that the district court described the "person having ordinary skill in the art" too restrictively in this case, limiting the class of such persons to practicing interventional cardiologists who were performing dilation or coronary angioplasty dilatation procedures in 1984. The identification of the "person having ordinary skill in the art," however, is a factual matter on which the district court's finding after trial can be overturned only if it is clearly erroneous. Finding no clear error here, I agree that the district court's resolution of that issue should be upheld.

I part company with the panel on only one issue: the right of Schneider (USA) to recover damages for infringement. Because I believe the district court's legal analysis of that issue is flawed, I would vacate the judgment and remand the case to the district court for further proceedings addressed to that question.

In order to recover damages for patent infringement, a party must have an interest in the patent rights, i.e., it must enjoy the right to exclude others from making, using, or selling the claimed invention. See Ortho Pharmaceutical Corp. v. Genetics Inst., Inc., No. 93-1166 (Fed. Cir. Apr. 5, 1995); Abbott Labs. v. Diamedix Corp., 47 F.3d 1128, 33 USPQ2d 1771 (Fed. Cir. 1995). An exclusive licensee derives that right from its agreement with the patentee, which conveys an implied or express promise of exclusivity under the patent. See Ortho Pharmaceutical Corp., supra, slip op. at 9. A nonexclusive licensee, on the other hand, has no protectable interest in the patent rights, but only a promise not to be sued for infringement. As the Second Circuit explained in Western Elec. Co. v. Pacent Reproducer Corp., 42 F.2d 116, 118, 5 USPQ 105, 106 (2d Cir.), cert. denied, 282 U.S. 873 (1930), a nonexclusive license

> grants to the licensee merely a privilege that protects him from a claim of infringement by the owner of the patent monopoly... He has no property interest in the monopoly of the patent, nor any contract with the patent owner that others shall not practice the invention. Hence the patent owner may freely license others, or may tolerate infringers, and in either case no right of the patent licensee is violated. Practice of the invention by others may indeed cause him pecuniary loss, but it does him no legal injury.

The district court did not find that Schneider (USA) is an exclusive licensee, and in fact the licensing agreement between Schneider (Europe) and Schneider (USA) expressly provides that the license granted to Schneider (USA) is non-exclusive. Schneider (USA) would therefore appear to be in the same position as other bare licensees, who enjoy the right not to be

sued for conduct authorized by the license, but who have no right to prevent others from infringing the patent rights, and no right to recover damages when others do so.

None of the district court's several explanations for awarding damages to Schneider (USA) supports the judgment in light of the governing principles. First, the district court characterized the license as an "assignment" and justified awarding damages to Schneider (USA) on that ground. The license, however, did not constitute an assignment of the patent rights, because Schneider (Europe) retained full ownership rights in the patent. In order for a licensing agreement to be treated as an assignment or its equivalent for purposes of conferring a right to sue and recover damages, the agreement must convey substantially all the rights under the patent, see Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A., 944 F.2d 870, 20 USPQ2d 1045 (Fed. Cir. 1991), which was not done here.

The district court based its ruling in part on its conclusion that the licensing agreement granted Schneider (USA) "the rights it needed to market the dilatation catheters in the territories it was responsible for," including the right to grant sublicenses to others. But having the rights necessary to function as a distributor of a patented product is not the same as having a proprietary interest in the patent. A distributor, simply by virtue of his role as a distributor, does not "shar[e] the property rights represented by a patent," Weinar v. Rollform, Inc., 744 F.2d 797, 807, 223 USPQ 369, 374-75 (Fed. Cir. 1984), cert. denied, 470 U.S. 1084 (1985). And the right to grant sublicenses likewise does not grant a right against the patent holder unless the sublicensing right is exclusive i.e., unless the agreement prohibits the patent holder from granting other licenses. The license agreement in this case does not expressly provide that the sublicensing right is exclusive, and the district court did not find that the agreement should be interpreted to convey an exclusive sublicensing right.

Finally, the district court based its ruling on "the circumstances surrounding the Sublicensing Agreement and the relation of Schneider (USA) and Schneider (Europe)." In particular, the district court relied on the fact that the two

companies "operate in tandem with each other as part of a network of corporate entities aimed at marketing the dilatation catheter protected by the '129 patent worldwide." Although Schneider (USA) and Schneider (Europe) are closely related, the district court did not find that they share property rights in the patent. If the two companies maintain a separate existence, with distinctive rights in property, their rights to sue and to recover damages based on their respective property interests must be examined separately. The district court's suggestion that the two entities operate "in tandem" is not sufficient to establish that they share the rights in the '129 patent that are the source of the right to recover damages for infringement. See Contracting Div., A.C. Horn Co. v. New York Life Ins. Co., 113 F.2d 864, 866, 46 USPQ 435, 437-38 (2d Cir. 1940) (close relationship between corporations not sufficient to establish that suit by one is in reality suit by another for purposes of standing to sue for patent infringement).

The appellees rely principally on two decisions of this court to support the district court's ruling on the damages issue: Weinar v. Rollform, Inc., supra, and Kalman v. Berlyn Corp., 914 F.2d 1473, 16 USPQ2d 1093 (Fed. Cir. 1990). Neither case supports the district court's ruling. In the Weinar case, the court upheld an award of damages to a licensee based on an oral contract that granted the licensee "an exclusive right to sell" the patented product in the United States. The court therefore simply applied the well-established rule that an exclusive licensee is deemed to have a protectable proprietary interest in the patent that may give rise to damages for infringement. In this case, the district court found that Schneider (USA) had the right to distribute the patented products in the United States, but the court did not find that Schneider (USA)'s right was exclusive i.e., that it precluded Schneider (Europe) from licensing other distributors in this country. In the absence of such exclusivity, Weinar does not give a licensee the right to recover infringement damages.

In the Kalman case, the court found that the patentee and the licensee (the patentee's closely held corporation) were so closely identified that the licensee "must be recognized as the real party in interest." 914 F.2d at 1482, 16 USPQ2d at 1099.

In the present case, by contrast, the district court has not found that Schneider (USA) is so closely identified with Schneider (Europe) that Schneider (USA) must be regarded as the "real party in interest," even though its formal status is only that of a non-exclusive licensee.

It is unclear whether, if the district court had analyzed the damages issue correctly, it would have reached a different result as to the right of Schneider (USA) to recover damages for SciMed's acts of infringement. It is also unclear how, and to what extent, a different conclusion as to the status of Schneider (USA) would affect the ultimate judgment in this case. I would therefore remand this case to the district court for further findings on Schneider (USA)'s right to recover damages and, if necessary, for a redetermination of the judgment based on the court's disposition of that issue.

United States Court of Appeals for the Federal Circuit

ORDER

A combined petition for rehearing and suggestion for rehearing in banc having been filed by the APPELLANT, and a response thereto having been invited by the court and filed by the CROSS-APPELLANT, and the petition for rehearing having been referred to the panel that heard the appeal, and thereafter the suggestion for rehearing in banc and response having been referred to the circuit judges who are in regular active service,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, DENIED and it is further

ORDERED that the suggestion for rehearing in banc be, and the same hereby is, DECLINED.

The mandate of the court will issue on July 12, 1995.

FOR THE COURT
FRANCIS X. GINDHART,
CLERK

Dated: July 5, 1995 By: S/

Diane M. Frye
Chief Deputy Clerk

cc: ROBERT C. MORGAN
JOHN E. KIDD

SCHNEIDER AG V SCIMED INC, 94-1317,-1410,-1456 (DCT - 3-91-241)

* Note: Pursuant to Fed. Cir. R. 47.6, this order is not *
* citable as precedent. It is a public record. *

A13

DISTRICT COURT, D. MINNESOTA

Schneider (Europe) AG v. SciMed Life Systems Inc.

No. 3-91 CIV 241
Decided May 14, 1993

PATENTS

1. Title - Construction of license agreement (§150.07)

Sublicense agreement by which patentee's licensee granted sublicensee non-exclusive right to make, use, and sell catheter, and right to grant further sublicenses within U.S., constitutes assignment that provides sublicensee with ability to sue and recover for patent infringement as co-plaintiff with licensee despite agreement's use of term "non-exclusive," since bundle of rights granted to sublicensee under agreement, including right to grant sublicenses on such terms as it "in its sole discretion" may determine, constitutes property interest in patent in suit.

REMEDIES

2. Monetary - Damages - Patents - Lost profits (§51O.0507.05)

Patent infringement plaintiff which demonstrates that defendant manufactured infringing catheter within U.S. can recover lost profits based upon its lost sales in foreign countries if it shows reasonable probability that, but for infringement, it would have made foreign sales made by defendant; plaintiff need not show that patented products were manufactured in U.S. for competing use or sale outside U.S.

Particular patents - General and mechanical - Medical catheters

4,762,129, Bonzel, dilatation catheter, motion for partial summary judgment of infringement denied.

Action by Schneider (Europe) AG and Schneider (USA) Inc. against SciMed Life Systems Inc., for patent infringement. On plaintiffs' motion for partial summary judgment, and on defendant's motion for summary judgment on damages claim. Plaintiffs' motion granted in part.

John E. Kidd, Leora Ben-Ami, Arthur M. Peslak, and Annette M. McGarry, of Shea & Gould, New York, N.Y.; Gary J. Haugen, of Maslon, Edelman, Borman & Brand, Minneapolis, Minn., for plaintiffs.

Robert C. Morgan, Mark H. Bloomberg, and Brenda J. Panichi, of Fish & Neave, New York; Wayne G. Popham, of Popham, Haik, Schnobrich & Kaufman, Minneapolis, for defendants.

Alsop, J.

The above-entitled matter came before the Court on Friday, January 8, 1993, on plaintiffs' motion for partial summary judgment pursuant to Rule 56 of the Federal Rules of Civil Procedure.

This is an action for patent infringement brought by plaintiffs Schneider (Europe) AG and Schneider (USA) Inc. against defendant SciMed Life Systems, Inc. ("SciMed"). Plaintiffs allege that the EXPRESS PTCA dilation catheter and the RALLY dilatation catheter, which are both manufactured by SciMed, infringe United States Patent 4,762,129 ("the '129 patent"). SciMed denies that its EXPRESS and RALLY catheters infringe the '129 patent and further asserts that the '129 patent is invalid and unenforceable.

Plaintiffs' present motion seeks partial summary judgment against defendant, alleging that SciMed has directly

infringed the '129 patent, induced infringement of the '129 patent, and is a contributory infringer of the '129 patent. Plaintiffs seek summary judgment that both the EXPRESS and the RALLY catheters infringe representative claims 1, 11, and 27 of the '129 patent. In addition, plaintiff seeks partial summary judgment on defendant's defense of patent misuse.

The following standard of analysis applies to resolution of patent infringement on summary judgment. Summary judgment is as appropriate in a patent case as in any other action when it is shown that no genuine issue of material fact remains and the movant is entitled to judgment as a matter of law. *Howes v. Medical Components, Inc.*, 814 F.2d 638, 643 [2 USPQ2D 1271] (Fed. Cir. 1987). In deciding such motions, all doubt respecting the presence or absence of factual issues must be resolved in favor of the party opposing summary judgment. *Id.*

Resolving the issue of patent infringement involves a two-pronged analysis. The first step is claim construction: determining what is the proper scope of the claims in the patent. The second step is determining whether the properly construed claims cover the accused devices. *Specialty Composites v. Cabot Corp.*, 845 F.2d 981 [6 USPQ2D 1601] (Fed. Cir. 1988). The precise nature and scope of a patent claim presents a mixed question of law and fact. *Tillotson, Ltd. v. Walbro Corp.*, 831 F.2d 1033, 1039 [4 USPQ2D 1450] (Fed. Cir. 1987). The first step, claim construction, is a question of law, but resolution of that question turns in significant part on the underlying facts. Id. However, the mere existence of a dispute as to that legal issue does not preclude summary judgment. *Molinaro v. Fannon/Courier Corp.*, 745 F.2d 651, 654 [223 USPQ 706] (Fed. Cir. 1984). When the claim is in dispute, however, it is necessary to look at certain extrinsic evidence, namely, the specification, the prosecution history, and the other claims. *Howes*, 814 F.2d at 643; *Moeller v. Ionetics, Inc.*, 794 F.2d 653, 656 [229 USPQ 992] (Fed Cir. 1986).

It is possible in interpreting a term in a claim that a disputed issue of fact may arise if there is a genuine evidentiary conflict created by the underlying extrinsic evidence pertinent to the claim's interpretation. *Id.* at 657. Determination of the first step of the two-step analysis is an issue of law; however,

summary judgment is inappropriate if, for example, "complex scientific principles are involved or expert testimony is needed to explain a disputed term . . . ." *Howes*, 814 F.2d at 643; *Moeller*, 794 F.2d at 657.

The second step in the analysis, determination of the difference between the properly construed claim and the accused device is a question of fact. *ZMI Corp.*, 844 F.2d at 1578 [6 USPQ2D 1557]; *Perini America, Inc. v. Paper Converting Mach. Co.*, 832 F.2d 581, 584 [4 USPQ2D 1621] (Fed. Cir. 1987). Where there is no genuine issue of material fact concerning the structure of the accused device, summary judgment is appropriate on a claim for literal infringement. *Townsend Eng'g Co. v. HiTec Co.*, 829 F.2d 1086, 1089 [4 USPQ2D 1136] (Fed. Cir. 1987).

Having considered plaintiffs' motion in light of this analysis, the Court concludes that genuine issues of material fact exist that preclude this Court from granting summary judgment to plaintiffs regarding whether defendant's RALLY and EXPRESS catheters infringe claims 1, 11, and 27 of the '129 patent. Consequently, the Court will deny plaintiff's motion for partial summary judgment regarding patent infringement.

The Court concludes that defendant's asserted defense of patent misuse has no basis in fact or in law, and the Court will grant summary judgment to plaintiffs on that issue, and that defense will be stricken.

Accordingly, upon review of all the files, records, and proceedings herein,

IT IS HEREBY ORDERED That

(1) Plaintiff's motion for partial summary judgment pursuant to Rule 56 of the Federal Rules of Civil Procedure regarding whether defendant has infringed claims 1, 11, and 27 of the '129 patent is DENIED;

(2) Plaintiff's motion for partial summary judgment pursuant to Rule 56 of the Federal Rules of Civil Procedure regarding defendant's defense of patent misuse is GRANTED, and that affirmative defense is stricken.

May 14, 1993

The above-entitled matter came before the Court on Friday, January 8, 1993, on defendant's motion for summary judgment on plaintiffs' damages claims pursuant to Rule 56 of the Federal Rules of Civil Procedure. For the reasons stated herein, the Court will deny defendant's motion.

STANDARD FOR SUMMARY JUDGMENT

The Supreme Court has held that summary judgment is to be used as a tool to isolate and dispose of claims or defenses that are either factually unsupported or based on undisputed facts. *Celotex Corp. v. Catrett*, 477 U.S. 317, 323-324 (1986); *Hegg v. United States*, 817 F.2d 1328, 1331 (8th Cir. 1987). Summary judgment is proper, however, only if examination of the evidence in a light most favorable to the non-moving party reveals no genuine issue of material fact and the moving party is entitled to judgment as a matter of law. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242 (1986).

The test for whether there is a genuine issue over a material fact is two-fold. First, the materiality of a fact is determined from the substantive law governing the claim. Only disputes over facts that might affect the outcome of the suit are relevant on summary judgment. *Liberty Lobby*, 477 U.S. at 252; *Lomar Wholesale Grocery, Inc. v. Dieter's Gourmet Foods, Inc.*, 824 F.2d 582, 585 (8th Cir. 1987), *cert. denied*, 44 U.S. 1010 (1988). Second, any dispute over material fact must be "genuine." A dispute is genuine if the evidence is such that it could cause a reasonable jury to return a verdict for either party. *Liberty Lobby*, 477 U.S. at 252. It is the non-moving party's burden to demonstrate that there is evidence to support each essential element of his claim. *Celotex* 477 U.S. at 324. Finally, the Federal Circuit, whose precedent controls patent law issues, has emphasized that summary judgment is as appropriate in patent actions as in any other type of action. *Avia Group Intern., Inc. v. L.A. Gear California*, 853 F.2d 1557, 1561 [7 USPQ2D 1548] (Fed. Cir. 1988).

BACKGROUND

This is an action for patent infringement brought by plaintiffs Schneider (Europe) AG and Schneider (USA) Inc.[1] against defendant SciMed Life Systems, Inc. ("SciMed"). Plaintiffs allege that the EXPRESS PTCA dilation catheter (the "EXPRESS catheter") and the RALLY dilatation catheter, which are both manufactured by SciMed, infringe United States Patent 4,762,129 ("the '129 patent"). Plaintiffs seek to recover damages for SciMed's alleged infringement in the form of lost profits, or alternatively, a reasonable royalty. SciMed denies that its EXPRESS and RALLY catheters infringe the '129 patent and further asserts that the '129 patent is invalid and unenforceable.

A description of the parties, their corporate structures, and the agreements between plaintiffs and between Schneider (Europe) and the owner of the patent is necessary in considering defendant's motion. SciMed is a United States company headquartered in Maple Grove, Minnesota that manufactures angioplasty catheters and accessories in Minnesota. SciMed sells these products in the United States and Canada and to foreign distributors who sell them to other foreign customers. Schneider (Europe), formerly Schneider Medintag, Inc. is a Swiss corporation, headquartered in Minnesota. Schneider (Europe) is wholly owned by Shiley, Inc., which in turn is wholly owned by Pfizer, Inc. ("Pfizer"). Schneider (USA) also is wholly owned by Pfizer.

The hierarchy of Pfizer and the placement of Schneider (Europe) and Schneider (USA) within that hierarchy also are important. The Hospital Products Group is a unit within Pfizer. One of the divisions within the Hospital Products Group is the Medical Devices Division. Within the Medical Devices Division is a business entity called Schneider Worldwide. Schneider Worldwide is composed of a number of operating entities, including Schneider (Europe) and Schneider (USA). Although

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[1] The Court will refer to the plaintiffs collectively as "Schneider" and to Schneider (Europe) AG as "Schneider (Europe)" and to Schneider (USA), Inc. as "Schneider (USA)."

Schneider (Europe) and Schneider (USA) are separate corporate entities with separate management, the presidents of Schneider (Europe) and Schneider (USA) report to the President and Chief Executive Officer of Schneider Worldwide, and the financial results of each unit within Schneider Worldwide are consolidated and reported to the Medical Devices Division at Pfizer's headquarters. Within Schneider Worldwide, Schneider (USA) is responsible for marketing the products it manufactures in the United States; Schneider International, which includes Schneider (Europe), is responsible for marketing the products it manufactures in the rest of the world. Schneider (USA) does not sell the products it manufactures outside of the United States; Schneider (Europe) does not sell the products it manufactures inside the United States.

The '129 patent at issue is owned by its patentee, Dr. Tassilo Bonzel, a German citizen.[2] In 1988, Dr. Bonzel granted to Schneider (Europe) an exclusive, worldwide license to make, have made, use and sell the dilatation catheter at issue (the "Bonzel-Schneider (Europe) Agreement"). Within the Bonzel-Schneider (Europe) Agreement, Dr. Bonzel also granted Schneider (Europe) the right to grant sublicenses and the right to sue for infringement under the '129 patent.[3] In 1989, Schneider

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[2] Dr. Bonzel also owns corresponding patents in the United Kingdom and Germany that have been declared invalid by courts in those countries. Additionally, Dr. Bonzel also owns a corresponding European patent, which also has been declared invalid in a post-issuance proceeding by the European Patent Office.

[3] The Bonzel-Schneider (Europe) Agreement also granted Schneider (Europe)several other rights and created numerous obligations between the two parties. For instance, Dr. Bonzel granted Schneider (Europe) the right to make, advertise, use and sell the dilatation catheter under such names, designs, or applications as Schneider (Europe) determined. The Court finds a complete recitation of the terms and conditions of the

(continued...)

(Europe) granted a sublicense to Schneider (USA) (the "Sublicense Agreement"), limited to the United States, its possessions, and territories. In the Sublicense Agreement,[4] Schneider (Europe) granted Schneider (USA) the nonexclusive right to make, have made, use and sell the dilatation catheter and the right to grant further sublicenses within the United States.[5]

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[3](...continued)
Bonzel-Schneider (Europe) Agreement unnecessary and will discuss only those other provisions that it deems relevant.

[4] The Sublicense Agreement provides in pertinent part:

> 2. [Schneider (Europe)] hereby grants [Schneider (USA)] a royalty-bearing, non-exclusive right and sublicense under the Proprietary Rights, Licensed Patents, and the Licensed Names to make, have made, use and sell, the Devices in the Territory, and to grant further sublicenses on such terms as [Schneider (USA)] in its sole discretion may determine, subject to the requirement that such terms shall [b]e consistent with the rights granted [Schneider (Europe)] under the License Agreement.
>
> 3. With respect to all Devices sold in the Territory, so long as [Schneider (Europe)] shall have the rights under the [Bonzel-Schneider (Europe)] Agreement, [Schneider (USA)] agrees to pay to [Schneider (Europe)] royalties of 12% of Net Sales in the Territory. . . .

[5] Schneider (USA) also argues that Paragraph 5 of the Sublicense Agreement granted to Schneider (USA) the right to sue for patent infringement in the United States. Schneider (USA) asserts that Paragraph 5 incorporates Schneider (Europe)'s right to sue for patent infringement, originally granted to Schneider (Europe) in the Bonzel-Schneider (Europe) Agreement. In response, SciMed argues that Paragraph 5 of the Sublicense (continued...)

DISCUSSION

I. *Does Schneider (USA) Have Standing to Sue and Recover In this Action?*

Defendant argues that, as a matter of law, regardless of whether SciMed's EXPRESS catheter is held to infringe the '129 patent, Schneider (USA) lacks standing to collect damages for infringement of the licensed patent because it is a nonexclusive sublicensee. Defendant contends that Schneider (Europe) is the exclusive licensee under the '129 patent, that Schneider (Europe) and Schneider (USA) are completely separate entities, and that the Sublicense Agreement does not give Schneider (USA) any of the attributes of ownership that allow it to sue or recover damages for patent infringement. In response, plaintiffs contend that Schneider (USA) has standing to recover damages for patent infringement and that allowing Schneider (USA) to recover damages is necessary to afford complete compensation for SciMed's infringement.[6]

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[5](...continued)
Agreement does not grant Schneider (USA) the right to sue for patent infringement.

[6] Plaintiffs also contend that defendant has waived its right to assert the affirmative defense at issue in defendant's present motion. SciMed did not raise the defense it asserts under this motion in its Answer dated June 14, 1991 nor in its Amended Answer dated May 27, 1992. SciMed first asserted the affirmative defense in its Answer to the Amended and Supplemental Complaint dated October 23, 1992. While it is true that "[f]ailure to timely raise a real-party-in-interest defense operates as a waiver," *FDIC v. Bachman,* 894 F.2d 1233, 1236 (10th Cir. 1990), the Court concludes that SciMed has not waived this defense by raising it for the first time in its Answer to the Amended and Supplemental Complaint. The decisions Schneider relies on in making its waiver argument involve either

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Under 35 U.S.C. § 281, only the "patentee" has a remedy at law for patent infringement.[7] A patent provides the owner, the patentee, the right to exclude others from making, using, and selling the patented invention. 35 U.S.C. § 154. However, the Patent Act also provides that "patents shall have the attributes of personal property . . . [and that] any interest therein, shall be assignable in law by an instrument in writing." 35 U.S.C. § 261. Thus, long-standing case law has held that parties that have been assigned property rights under a patent may sue for patent infringement. *See, e.g., Kalman v. Berlyn Corp.*, 914 F.2d 1473, 1482 [16 USPQ2D 1093] (Fed. Cir. 1990); *Weinar v. Rollform Inc.*, 744 F.2d 797, 807 [223 USPQ 369] (Fed. Cir. 1984); *Western Electric Co. v. Pacent Reproducer Corp.*, 42 F.2d 116, 119 [5 USPQ 105] (2d Cir. 1930). Over a hundred years ago, in *Waterman v. Mackenzie*, 138 U.S. 252, 255, (1891), the Supreme Court delineated the difference between an assignment and a license, setting out what parties, besides the patentee, may sue for patent infringement:

> The patentee or his assigns may, by instrument in writing, assign, grant and convey, either, 1st, the whole patent, comprising the exclusive right to make, use and vend the invention throughout the United States, or, 2d, an undivided part or share of that exclusive right, or, 3d, the exclusive right under the patent within and throughout a specified part of the United States. A transfer of either of these three kinds of interests is an

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[6](...continued)
much less timely assertions or much greater delayed assertions than in the present case. *See Gogolin & Stelter v. Karn's Auto Imports*, 886 F.2d 100, 102 (5th Cir. 1989) (defendant held to waive the defense because it raised the defense in a motion for directed verdict); *Hefley v. Jones*, 687 F.2d 1383, 1388 (10th Cir. 1982) (defendant's assertion of defense sixteen day's before trial untimely and cause for waiver).

[7] The "patentee" in this action is Dr. Bonzel, who is not a party to the action.

> assignment, properly speaking, and vests in the assignee a title in so much of the patent itself, with a right to sue infringers. . . . Any assignment or transfer, short of one of these, is a mere license, giving the licensee no title in the patent and no right to sue at law in his own name for an infringement.

The policy behind disallowing a "bare licensee" from suing for patent infringement is that the "bare licensee" enjoys no property rights in the patent; rather, the "bare licensee" only enjoys the right to make or sell or use the patented object free from a suit for infringement. *See Western Electric Co.*, 42 F.2d at 118. To assess whether an agreement constitutes an assignment or a license, a court must "ascertain the intention of the parties and examine the substance of what was granted." *Vaupel Textilmaschinen v. Meccanica Euro Italia*, 944 F.2d 870, 874 [20 USPQ2D 1045] (Fed. Cir. 1991) (in rejecting defendant's contention that a patent infringement action must be dismissed for failure to join an indispensable party under Rule 19, court looked to the agreements and surrounding circumstances and held that the applicable transfer constituted an assignment). In addition, "[w]hether a transfer of a particular right or interest under a patent is an assignment or a license does not depend upon the name by which it calls itself, but upon the legal effect of the provisions." *Waterman*, 138 U.S. at 256.

[1] The present motion comes to this Court in a somewhat different context than often presented to prior courts deciding such an issue. This is because Schneider (Europe), who may bring this action in its own name, already is a party to the present action.[8] In the present case, no one disputes Schneider

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[8] Defendant's motion is somewhat unusual in that the primary assignee of the legal patent holder, Schneider (Europe), already is a plaintiff, whereas in most prior decisions regarding this issue, defendants have contested the right of plaintiffs to bring a suit because neither the legal patent holder nor an assignee were party to the action. Thus, defendants in prior cases

(continued...)

(Europe)'s standing or ability to sue or recover damages for patent infringement. Clearly, the Court has proper subject matter jurisdiction over the action based on the presence alone of Schneider (Europe) as plaintiff. *See* 28 U.S.C. § 1338(a); *see also Calgon v. Nalco Chem. Co.*, 726 F. Supp. 983, 989 [13 USPQ2D 1529] (D. Del. 1989). Because Schneider (Europe) has standing to sue an infringer in its own name, without joinder of the patentee this Court need not decide the question of whether Schneider (USA) could have brought this action in its own name without joining either Schneider (Europe) or the patentee. Instead, the Court must consider only whether Schneider (USA) may properly sue and recover for infringement as co-plaintiff with Schneider (Europe). After examining the Sublicense Agreement and the circumstances surrounding the Sublicense Agreement, the Court concludes that the Sublicense Agreement constitutes an assignment that provides Schneider (USA) with the ability to sue and recover for patent infringement as co-plaintiff with Schneider (Europe). The Court expressly declines to decide whether Schneider (USA) could have brought this action in its own name without joining either Schneider (Europe) or the legal patent holder, Dr. Bonzel.

Schneider (Europe), as the assignee of the legal patent holder, Dr. Bonzel, granted to Schneider (USA) two principal rights: the nonexclusive right to make, have made, use and sell the dilatation catheter and the right to grant further sublicenses

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[8](...continued)
have moved for dismissal based upon lack of subject matter jurisdiction because plaintiff lacked standing to sue or have moved to dismiss or strike plaintiff because it was not the real party in interest under either Rule 17(a) or Rule 21 of the Federal Rules of Procedure. The defendant's present motion does not challenge Schneider (USA)'s ability to sue and recover damages on the basis of subject matter jurisdiction or Rules 17(a) or 21 of the Federal Rules of Civil Procedure. Rather, the motion asserts that Schneider (USA) "lacks standing to collect damages of any kind."

within the United States.[9] SciMed argues that the use of the term "non-exclusive" illustrates the limited powers that Schneider (Europe) granted to Schneider (USA). Further, SciMed argues that "while Schneider (USA) was given the right to grant further sublicenses under the '129 patent this right does not constitute a property right under the '129 patent entitling it to sue or to recover damages." SciMed's Mem. Mot. Summ. J. at 13 (citing to *Rawlings v. National Molasses Co.*, 394 F.2d 645, 647 [158 USPQ 14] (9th Cir. 1968)). The Court finds these arguments without merit. First, SciMed's reliance on the term "non-exclusive" in the Sublicense Agreement inverts the policy enunciated in *Waterman* that courts should look to the "legal effect of the provisions" and not the "name by which it calls itself" in determining whether a particular agreement constitutes an assignment or license. *Waterman*, 138 U.S. at 256. Merely because the Sublicense Agreement called itself a "non-exclusive license" does not mean that this Court should ignore the rights that Schneider (Europe) granted to Schneider (USA). *Vaupel Textilmaschinen*, 944 F.2d at 875 ("[T]he use of the term 'exclusive license' in the 1988 agreements is not dispositive; what the documents in fact recite is dispositive.").

Second, the Court does not believe that the court in *Rawlings v. National Molasses Co.*, 394 F.2d 645, 647 [158 USPQ 14] (9th Cir. 1968) addressed the issue before the Court in this motion and respectfully declines to follow its logic in resolving the present motion. In *Rawlings*, the legal patent holder brought a patent infringement action against several defendants, including Feed Service. In a separate agreement, the legal patent holder settled with Feed Service and granted it a nonexclusive sublicense agreement in which the patent holder granted Feed

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[9] Because the Court determines that the grant of the rights discussed above gives Schneider (USA) as co-plaintiff standing to sue and recover damages for the alleged patent infringement alleged against SciMed, the Court need not determine whether the Sublicense Agreement also granted Schneider (USA) the right to sue for patent infringement by incorporation. *See supra* note 5.

Service (1) the right to make, use, and sell the patented product, and (2) the right to sublicense others. After the agreement was reached, plaintiff dismissed Feed Service with prejudice from its lawsuit. Subsequently, the remaining defendants brought a motion to dismiss the patent infringement action, claiming that Feed Service was an indispensable party. The defendants argued that the action could not proceed without the presence of Feed Service because defendants would then be susceptible to multiple recoveries because Feed Service could sue the same defendants for patent infringement on its own in a subsequent action. The district court granted the motion to dismiss, but in a two page opinion, the Ninth Circuit reversed. The Ninth Circuit held that "Feed Service had no capacity to sue strangers for infringement of the patent." *Rawlings*, 394 F.2d at 647. The court noted that "[t]he cited decisions make it quite clear that an owner of something less than monopoly rights may not sue for patent infringement." *Id.* Thus, the Court determined that Feed Service was not an indispensable party because the defendants could not thereafter be sued by Feed Service alone.

In *Rawlings*, the Ninth Circuit did not address the question before this Court, namely, whether a licensee who is granted rights short of an assignment could have joined the legal patent holder as co-plaintiff in a patent infringement action and recovered damages. In the present action, the Sublicense Agreement, though perhaps not crafted as clearly as one might desire in hindsight, accomplished the purpose of granting Schneider (USA) the rights it needed to market the dilatation catheters in the territories it was responsible for as part of Schneider Worldwide. This bundle of rights, which included the important right to grant sublicenses "on such terms as [Schneider (USA)] in its sole discretion may determine . . . ", gave Schneider (USA) a property interest in the '129 patent that provides Schneider (USA) the right to sue and recover damages as co-plaintiff in the present action. Ample precedent exists for allowing a party who may not be able to bring an action for patent infringement in its own name to sue and recover damages as co-plaintiff in such an action. *See, e.g., Waterman*, 138 U.S. at 255; *Weinar*, 744 F.2d 797 at 797 ("[T]wo parties sharing the property rights represented by a patent may have their respective

rights protected by injunction and each, when properly joined in a suit may be entitled to damages."); *Western Electric Co.*, 42 F.2d at 119 ("The grant may amount to an assignment of an interest in the patent, entitling the licensee (assignee) to sue an infringer in his own name; if it is less inclusive, it remains a license . . . in that event the licensee may restrain an infringement only by joinder with the patent owner . . . .").

This Court's conclusion is also supported by the reasoning and result reached in *Calgon v. Nalco Chem. Co.*, 726 F. Supp. 983 [13 USPQ2D 1529] (D. Del. 1989). In *Calgon* the court considered defendant's motion to dismiss for lack of subject matter jurisdiction based on the grounds that plaintiff did not have standing to sue for patent infringement under 35 U.S.C. § 281. The plaintiff opposed the motion, arguing that it was an assignee of the legal patent holder and could therefore commence an action for patent infringement in its own name. In the alternative, plaintiff argued that it should be allowed to amend its complaint to add the legal patent holder, a Japanese corporation over which the court could not exercise personal jurisdiction, as an involuntary plaintiff under Fed. R. Civ. Pro. 15(a). The court examined the agreement between the legal patent holder and the plaintiff and concluded that the various rights transferred to plaintiff did not make it an assignee, but only left it a licensee. The court noted that a licensee could not bring an action for patent infringement without having the patent holder or assignee as a necessary party to the infringement action "in order to achieve consistency of interpretation and to avoid multiplicity of litigation." *Calgon*, 726 F. Supp. at 985. Significantly, the court did not dismiss the action, however, or bar the plaintiff from recovering damages for patent infringement; rather, the court ruled that the plaintiff did not have standing to sue alone and granted plaintiff's motion to amend the action to include the legal patent holder. *Id.* at 989-90.

Finally, the circumstances surrounding the Sublicense Agreement and the relation of Schneider (USA) and Schneider (Europe) serve as evidence of the parties' intent to transfer more than just a "bare license." Schneider (USA) and Schneider (Europe), though separate corporate entities with separate origins, are owned by the same parent company, Pfizer. As

such, they operate in tandem with each other as part of a network of corporate entities aimed at marketing the dilatation catheter protected by the '129 patent worldwide. Finally, Schneider (USA) and Schneider (Europe) do not compete in each other's respective market.

In sum, the Court concludes that Schneider (USA) as co-plaintiff has standing to sue and recover damages for the alleged patent infringement, and the Court will deny defendant's motion with regards to Schneider (USA).

II. *Can Schneider (Europe) Recover Lost Profit Damages?*

Defendant also argues that (1) Schneider (Europe) cannot recover lost profit damages for EXPRESS sales it would have made in the United States, and (2) Schneider (Europe) cannot recover lost profit damages for EXPRESS sales it would have made *outside* the United States. As to the first argument, the Court declines to consider the issue because Schneider (Europe) does not make a claim for lost profit damages in the United States; Schneider (USA) seeks recovery for lost profit damages in the United States. As such, the Court will deny as moot defendant's motion regarding Schneider (Europe)'s ability to recover lost profit damages for sales it would have made in the United States.

[2] In support of its second argument regarding Schneider (Europe), defendants proffer the following rule: in order for a holder of United States patent to recover lost profits based on an infringer's sales outside of the United States, the patent holder itself must have manufactured the patented products in the United States for competing use or sale outside of the United States. The Court has reviewed the three cases defendant cites in support of this rule[10] and concludes that 35 U.S.C. § 271 does not present such a requirement in order for a patent

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[10] *See Brown v. Duchesne*, 19 How. 183 (U.S. 1856); *Kori Corp. v. Wilco MarshBuggies & Draglines*, 761 F.2d 649 [225 USPQ 985] (Fed. Cir. 1985); *Polaroid Corp. v. Eastman Kodak Co.*, 16 U.S.P.Q.2d 1481 (D. Mass. 1990).

holder to recover for lost profits based on an infringer's sale of patented products outside of the United States. The Court concludes, instead, that the focus, for purposes of determining the scope of 35 U.S.C. § 271, is on whether the alleged infringer's actions took place within the United States. In the present case, it is clear the defendant manufactured the allegedly infringing catheters in the United States. If Schneider (Europe) carries its burden of proving SciMed's acts constitute patent infringement and shows a "reasonable probability that but for the infringement," it would have made the foreign sales made by SciMed, *Del Mar Avionics, Inc. v. Quinton Instrument Co.*, 836 F.2d 1320, 1326 [5 USPQ2D 1255] (Fed. Cir. 1987), Schneider (Europe) may recover lost profits for the damage resulting from its lost sales in foreign countries. Thus, the Court will deny defendant's motion as to Schneider (Europe)'s ability to recover lost profit damages for sales made outside the United States.

Accordingly, upon review of all the files, records, and proceedings herein.

IT IS HEREBY ORDERED That the defendant's motion for summary judgment pursuant to Rule 56 of the Federal Rules of Civil Procedure is DENIED.

A30

SCHNEIDER (EUROPE) AG and SCHNEIDER (USA) INC., Plaintiffs,

v.

SCIMED LIFE SYSTEMS, INC., Defendant.

No. 3-91 CIV 241

UNITED STATES DISTRICT COURT
DISTRICT OF MINNESOTA
THIRD DIVISION

March 4, 1994

Order Modifying Injunction
April 25, 1994

852 F. Supp. 813

* * * * * * * *

180. In June 1993, SciMed commercially launched the RALLY® catheter.

181. The Court finds that from the beginning of the development project leading to the EXPRESS™ and RALLY™ catheters, SciMed took precautions to give effect to its policy not to infringe the valid patent rights of others. SciMed reasonably relied on the opinions of its counsel that the '129 patent and reexamination certificate were invalid as obvious.

V. *Damages*

A. *Background*

182. In a "direct sales country," Schneider (Europe) controls the sales force and includes its profit or loss on consolidated financial statements. Schneider (Europe) sells directly in France, United Kingdom, Belgium Holland, Canada, Switzerland, and Austria. In a "distributor country," Schneider (Europe) sells its products to a distributor, which has its own sales force. Schneider sells through distributors in Germany, Spain, Austria, "Other Europe", Japan, "Far East Other", Middle East, Latin America, and Africa.

[12] 183. SciMed argues that none of the claims of the original Bonzel '129 patent emerged substantively the same in the reexamination certificate and that Plaintiffs are therefore not entitled to damages on the reexamined claim before the date of the reexamination certificate. SciMed also argues that Plaintiffs are not entitled to damages after the date of the reexamination pursuant to the doctrine of intervening rights.

184. Specifically, SciMed contends that reexamination claims 5-7: 1) exclude a procedure in which the guide wire and the catheter are put in together; 2) exclude a procedure where the balloon is pulled out while inflated; and 3) exclude the use of the catheter in valvuloplasty procedures.

185. Schneider contends that Claims 5-7 were not *substantively* changed in the Reexamination Certificate. While word changes were made to the claim, Schneider contends that the amendments merely clarified that which was already implicit in the original Claims 5-7.

186. The Court finds that the original and reexamined Claims 5-7 are substantively identical. In the reexamination, Dr. Bonzel stated, "In order to advance the prosecution and to alleviate the examiner's apparent concerns regarding certain of the method claims 5-7 as issued, patentee has now made minimal

changes by substituting words of identical meaning and by making explicit that which was already implicit in the claims. It is patentee's firm conviction that the scope of amended claims 5-7 is identical to the scope of issued claims 5-7 of the '129 patent." Reexamination File History, Amendment (Jan. 28, 1991) (Defendant's Trial Exhibit 2, Tab 26, at 21). Moreover, Bonzel stated in a subsequent amendment, "For the record, patentee also wishes to respectfully reiterate his position that each of claims 5-7 is identical in scope and without substantive change in respect to issued claims 5-7 of the '129 patent." Reexamination File History, Amendment (March 12, 1991) (Defendant's Trial Exhibit 2, Tab 32, at 5).

187. The Court finds that one of ordinary skill in the art would read both original and reexamination Claims 5-7 as excluding valvuloplasty because by their language, both are limited to the "vascular" system.

188. The specification supports Schneider's position that the reexamination certificate is substantively identical. The specification states:

> [F]irst the guide wire 1 is introduced through the guide catheter into the proper coronary artery. . . . When the guide wire 1 has passed the constriction in the coronary artery, the tip of the guide wire 1 remains on the far side of the stenosis in the coronary vessel. At this point, and not until, the dilatation catheter according to the invention is thrust onto the guide 1 outside the body and advanced through the guide catheter along the track formed by guide wire 1. . . .

'129 Patent Specification, Col. 3, lines 9-22. After considering the reexamination file history, the specification, the claim language, and expert testimony, the Court finds that Claims 5-7 in the reexamination certificate are substantively identical to Claims 5-7 in the original '129 patent.

B. *Lost Profits*

189. The Schneider rapid-exchange catheters and SciMed's infringing catheters compete within the same market segment at similar prices. Prices on Schneider and SciMed's catheters ranged from $ 600 - $ 700 between 1991 and 1993 domestically. Both companies' prices were several hundred dollars less internationally.

(i) *Demand for the Patented Product*

190. The Schneider monorail catheter has had commercial success in both the domestic United States and the international markets. The number of units sold by Schneider and Schneider's competitors, including SciMed, is evidence of the monorail-type catheter's success. *See* Findings of Fact 131-135.

191. The most important feature of a SOE monorail-type catheter is the short guide wire lumen, which allows for rapid exchange of the catheter during a PTCA procedure. This feature is primarily responsible for the commercial success of the product. *See* Finding of Fact 136.

192. There are distinct segments within the PTCA market. Those segments include over-the-wire ("OTW"), fixed wire ("FWC"), and single operator exchange ("SOE"). Prior to the '129 patent and introduction of Schneider's monorail catheter, there was no SOE market segment. Upon introduction of the monorail, the SOE market segment grew rapidly in both the international and domestic markets.

193. The high demand for the rapid-exchange-type catheter is established in a SciMed internal memorandum dated 9/1/89, which states, "The monorail is a must. Dale [Spencer] is pressing this issue. . . . Be aware, and be alert to allocating priority resources." (Plaintiffs' Trial Exhibit 46). This element of the *Panduit* test is clearly met.

194. When the EXPRESS™ entered the market, the rapid-exchange market was already expanding at a rapid rate. SciMed estimated that the SOE catheter market in February 1991 was growing at an annual rate of 40%. It grew from 0% in 1988 to 6% in 1989; 15% in 1990; 26% in 1991; and 31% in 1992.

(ii) *Absence of Non-Infringing Alternatives*

195. The MAGNET™ was not a non-infringing alternative until it entered the market in September 1993. In January 1992, Bard was granted a non-exclusive worldwide license under the '129 patent.

196. The TRAPPER™ was not available on the market before January 1992. The TRAPPER™ is not a non-infringing alternative because it is intended for use *with* an OTW catheter and it does not have a guide wire lumen. In addition, the TRAPPER™ costs $ 75-$ 80 per unit. It does not compete with SOE catheters, which cost approximately $ 650 per unit.

197. ACS's monorail catheters infringed the Bonzel '129 patent and reexamination certificate and therefore do not qualify as a non-infringing alternative. However, as of December 17, 1991, which is the date that Schneider licensed the ACS RX as part of a settlement agreement, the ACS monorail catheters became a non-infringing alternative. After December 17, 1991, therefore, market share analysis is necessary to establish lost profits.

[13,14] 198. Schneider is entitled to lost profits on 100% of SciMed EXPRESS™ sales from introduction of the EXPRESS™ in February 1991 until December 17, 1991. From December 17, 1991 until the entry of final judgment, Schneider is entitled to lost profits on each SciMed sale allocated to Schneider pursuant to the market share allocation set forth by Dr. Dugan.

199. The Court finds that the market share allocation set forth by Dr. Dugan in Plaintiffs' Trial Exhibit 1098 is reasonable. SciMed argues that "but for" the introduction of the EXPRESS™ and RALLY™, every sale that went to the EXPRESS™ and RALLY™ would not have necessarily been an SOE sale because the SOE market is not a distinct segment of the PTCA market. The Court expressly rejects this argument based on the totality of credible evidence, which establishes that the SOE market segment is a "special niche" market for PTCA catheters.

200. The evidence presented at trial establishes that SciMed itself consistently identified SOE as a distinct and rapidly growing market segment. In a Project Evaluation Request, SciMed stated, "the *rapid-exchange or monorail segment* is expected to be approximately 15% of the balloon catheter market." (Plaintiffs' Trial Exhibit 728) (emphasis added).

201. In defining the market segments, Dr. Dugan analyzed ACS, SciMed, and Schneider market segment shares by country and ascertained market segment share allocation damages on a period-by-period and country-by-country basis. This approach is reasonable and is supported by the testimony and evidence submitted at trial. Dr. Dugan testified, and the Court finds, that there was a reasonable probability that without the EXPRESS™ and RALLY™, people would buy another type of rapid-exchange catheter rather than a SciMed OTW catheter.

202. It is reasonable to use the 1992 market share percentages for 1993 and beyond. More precise 1993 percentages could not be calculated because ACS data was not available for 1993.

(iii) *Ability to Meet Demand*

[15] 203. The record, reviewed as a whole, establishes that Schneider (Europe) had the manufacturing capacity to make all of the monorail-type catheters that SciMed sold

internationally. Schneider (Europe) has not had backorders that affected its ability to make and sell catheters. In addition, Schneider (USA) had the manufacturing capacity to make all the monorail-type catheters that SciMed sold in the United States. Schneider (USA) has not had backorders that affected its ability to make and sell catheters.

204. Schneider (Europe) and Schneider (USA) have distribution, sales, and marketing systems in all geographic areas in the United States and international markets in which SciMed sold infringing catheters from 1991 through the present. Schneider (Europe) and Schneider (USA) had sufficient capacity to make all of SciMed's sales in those areas. Schneider (Europe) and Schneider (USA) also had sufficient capacity to hire and train sales and marketing staff to meet the additional sales demand within the necessary time frame.

205. SciMed and Schneider have virtually identical sales force coverage throughout the United States and the world. The Court finds that Schneider could have added sales force and representatives to meet the increased demand. In addition, in 1991 - 1992, the market was ripe for hiring, so Schneider would not have had trouble finding persons to employ.

206. Dr. Dugan testified that between 1989 and 1990, Schneider demonstrated the ability to increase productive capacity by 400% in a one year period. Between 1991 and 1992, production at the Schneider Plymouth plant increased by 165%.

207. The Plymouth, Minnesota operating plant has a substantial amount of under-utilized capacity. Schneider's new plant in Bulach, Switzerland provides Schneider (Europe) with the capacity to produce substantially increased amounts of catheters to meet demand.

(iv) *The Amount of Loss*

[16] 208. The market share analysis conducted by Dr. Dugan, as set forth in Plaintiffs' Trial Exhibit 1098, provides a reasonable calculation of the number of lost Schneider sales. It also reasonably establishes the number of SciMed sales on which a royalty is due. The lost profit margins and supporting analysis, set forth by Dr. Nantell in Defendant's Trial Exhibit 1137, applied within the framework of Dr. Dugan's market share analysis, results in a reasonable calculation of Schneider's total damages. Several damage tables, which are included in these Findings, set forth the Court's calculation of damages based on a combination of Dr. Dugan and Dr. Nantell's analyses.

[17] 209. The Court finds that Dr. Dugan's incremental profit margins overestimate Schneider's actual profit margins. His analysis assumes that the variable cost per unit is the same regardless of the level of additional units. His profit margins are too high because he did not fully account for changes in the nature of fixed costs that occur as production greatly increases. Fixed costs are only fixed within certain ranges of production. For large changes in production, fixed costs often become variable.

210. In addition, the Court finds that the fixed nature of costs for large changes in volume, as contemplated by Dr. Dugan, is inconsistent with non-litigation analyses done by both Schneider and SciMed. The profit margins set forth by Dr. Dugan are much higher than those contemplated by Schneider in a non-litigation context. For example, in Plaintiffs' Trial Exhibit 714, Schneider estimated a profit margin of between 26% and 40% on its sales.

211. Dr. Nantell's analysis results in a reasonable calculation of Schneider's actual profit margins. He determined how fixed costs would change with volume by performing a regression analysis of the Plaintiffs' historic cost data to determine how Plaintiffs' costs varied with sales. The Court adopts his lost profit percentage figures.

[18] 212. Schneider is entitled to reasonable royalties on all SciMed sales of EXPRESS™ and RALLY™ catheters for which lost profits are not awarded.

213. From February 1991 through June 1993, all SciMed infringing catheters were made in the United States. Therefore, Schneider (Europe) may recover lost profits for the damages resulting from lost sales in foreign countries. *See Schneider (Europe) AG and Schneider (USA) Inc. v. SciMed Life Systems,* Inc., No. 3-91 CIV 241, slip op. at 15-16, WL 463204, at *6 (D. Minn. May 14, 1993) (Alsop, J.). Schneider (USA) may recover lost profit damages in the United States.

214. The damage tables incorporated in Findings do not include damage calculations after June 30, 1993 because the calculations presented by the parties at trial ended on that date. In addition to the total amount of damages set forth in the damage tables, Plaintiffs are entitled to lost profit damages or a reasonable royalty on all infringing catheters made and sold by SciMed between June 30, 1993 and March 4, 1994.

215. The damage tables set forth damages owed on free goods through October 1992. Schneider is also entitled to reasonable royalties on any free Express™ and Rally™ catheters that SciMed has distributed between October 31, 1992 and March 4, 1994.

C. *Reasonable Royalty*

[19] 216. The reasonable royalty rate for the Bonzel patent under the facts of this case is 15% of SciMed sales. In reaching this rate, the Court has considered the *Georgia-Pacific* factors set forth below. *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F.Supp. 1116 (S.D.N.Y. 1970), *aff'd in part, modified in part,* 446 F.2d 295 (2d Cir.), *cert. denied,* 404 U.S. 870 (1971).

[20] 217. The reasonable royalty rate is determined by a hypothetical negotiation. A hypothetical negotiation in this case would have taken place on or about February 1991, just prior to SciMed's first sale of the EXPRESS™. The parties to the hypothetical negotiation would have included SciMed and Schneider. At the hypothetical negotiation, the Bonzel patent is presumed to be valid and infringed.

(i) *Georgia-Pacific Factors*

(a) *Factor One: Established Royalty Rate for the '129 Patent*

[21] 218. The Court finds that there was no established royalty rate for the Bonzel patent. The license agreement between Dr. Bonzel and Schneider (Europe) that provides for a 5% royalty payment to Dr. Bonzel is not evidence of an established royalty rate for the Bonzel patent for the following reasons: 1) Dr. Bonzel and Schneider (Europe) were not competitors and, therefore, Dr. Bonzel would not lose market share by licensing Schneider; 2) Dr. Bonzel was merely a physician seeking someone to promote his unproven invention at that time; 3) there was no patent at the time of the license; and 4) no market existed yet for monorail-type catheters.

[22] 219. Neither does the Schneider (Europe) and Schneider (USA) sublicense establish a royalty for the Bonzel patent because Schneider (Europe) and Schneider (USA) are not competitors. They are sister companies that do not sell in each other's territory. As a result, the sublicense cannot be considered an arm's-length agreement.

220. The Schneider/ACS settlement agreement includes a fully paid-up cross-license of the '129 patent to ACS and the Yock patents to Plaintiffs. The agreement also includes a $ 22 million payment from ACS to Plaintiffs. Mr. Smith testified at trial, and the Court agrees, that this agreement indicates that the '129 patent is valuable. Insufficient evidence was presented,

however, to show that this or any other agreement established a royalty rate for the '129 patent.

(b) *Factor Two: Rates Paid by SciMed for Patents Comparable to the '129 Patent*

221. SciMed paid ACS a royalty rate of 20% under the ACS Yock patents in settlement of litigation. SciMed received the right to continue selling the EXPRESS™ catheter for a period of about two years. The Yock patents are for monorail-type catheters and are therefore comparable to the Bonzel patent. SciMed paid a considerably smaller royalty rate in a settlement agreement with Bard.

222. The Court notes that these royalty rates were reached in settlement of litigation, which detracts from their usefulness in arriving at a royalty rate in this case. However, a royalty rate of 15% does fall between the various royalty rates paid by SciMed in these settlement agreements.

(c) *Factor Three: The Nature and Scope of the License*

223. The license granted to SciMed under the Bonzel patent, while non-exclusive, would not be restricted to any particular territory of the United States. It would allow SciMed to sell throughout the world and would not contain restrictions regarding to whom SciMed could sell its products.

(d) *Factor Four: Plaintiffs' Patent Licensing Policy*

224. Schneider has an established policy and practice of not licensing the Bonzel patent, primarily because licensing it would not be profitable. In February 1991, it would not have licensed the Bonzel patent to SciMed.

225. Schneider conducted studies in response to various requests for a license under the '129 patent. Each study resulted in the conclusion that it would require royalty rates substantially higher than 15%.

(e) *Factor Five: The Commercial Relationship Between the Parties*

226. Schneider and SciMed are competitors in the same geographic territories and in the same line of business. Their rapid-exchange products directly compete within the rapid-exchange segment of the PTCA market.

227. SciMed's infringement interfered with the patent monopoly that the '129 enjoyed prior to the entrance of the EXPRESS™ into the market.

(f) *Factor Six: Derivative or Convoyed Sales*

228. In part, SciMed's business strategy was to increase sales of other SciMed products with sales of the EXPRESS™. The ability of the EXPRESS™ to increase other SciMed product sales increases the reasonable royalty rate.

(g) *Factor Seven: The Duration of the Patent and the Term of the License*

229. The license would have been coextensive with the remaining term of the patent. At the time of the hypothetical negotiation, the Bonzel patent still had fourteen years left. This factor tends to favor SciMed and decreases the reasonable royalty rate slightly.

(h) *Factor Eight: Established Profitability, Commercial Success, and Popularity of Products Made Under the '129 Patent*

230. Schneider's Monorail sales may be used as a basis for evaluating the established profitability, commercial success, and popularity of products made under the '129 patent. The profitability, success, and popularity of Schneider's monorail products is primarily due to the rapid-exchange capability, which is the monorail's patented feature. The record establishes that Schneider's rapid-exchange catheters were highly profitable, popular, and successful in February 1991.

231. SciMed's infringing sales may also be used as a basis for evaluating these factors. In February 1991, SciMed anticipated extremely high profits from the sale of the EXPRESS™ based on the rate at which the rapid-exchange segment of the PTCA market was growing. SciMed expected to share in the success of the Schneider monorail products, which is evidence of the strength of the Bonzel patent.

(i) *Factor Nine: Utility and Advantages of the '129 Patent Over Old Modes or Devices*

232. The Bonzel patent has many advantages over the old devices, the most important of which is its rapid-exchange capability. Other advantages include: 1) friction is reduced; 2) fewer personnel are necessary to perform an exchange; 3) less exposure to x-ray is required; 4) and physicians are able to use the wire first technique with a standard-length guide wire.

(j) *Factor Ten: The Nature of the Invention, Character of the Commercial Embodiment, and Benefits of the Invention*

233. Schneider sold monorail-type catheters before February 1991, which means that at the time of the hypothetical negotiation, Schneider already knew that the monorail could be manufactured and sold successfully.

(k) *Factor Eleven: The Extent to Which SciMed Made Use of the '129 Patent Prior to the Hypothetical Negotiation*

234. At the time of the hypothetical negotiation, there had been no use by SciMed of the '129 patent.

(l) *Factor Twelve: Customary Royalty Rates in the Hypothetical Negotiation*

235. It was not established at trial that there is a customary royalty rate in the catheter industry. On the contrary, evidence and testimony suggests that royalty rates have varied considerably.

(m) *Factor Thirteen: The Portion of the Profit That Should be Credited to the '129 Patent*

236. The portion of profit that should be credited to the '129 patent is an important factor in determining royalty rates for catheter licenses. SciMed claims that the EXPRESS™ and RALLY™ catheters have many features that produce sales that are wholly unrelated to the '129 patent. The Court finds, however, that the critical feature of SciMed's rapid-exchange catheters is the ability to perform rapid-exchange. This finding is supported by the testimony contained in the record. Because that is the patented feature of the Bonzel invention, almost all of the realizable profit made by SciMed on its sales of Express catheters is attributable to the Bonzel patent.

237. SciMed was able to enter the rapid-exchange segment of the PTCA market with minimal business risk because the Schneider rapid-exchange products opened the market.

(n) *The Opinion of Qualified Experts*

238. Schneider's expert, Mr. Dudley Smith, opined that a reasonable royalty rate in this case is 30%. By virtue of his knowledge, training, and experience, Mr. Smith is qualified to offer his opinion as to a reasonable royalty in this case and to assist the Court in determining what royalty rate would be reasonable under the circumstances. However, the Court finds that consideration of the *Georgia-Pacific* factors, based on the record as a whole, renders 30% an excessively high figure.

239. SciMed's expert, Mr. Richard Myers, has extensive experience in negotiating royalty rates in the catheter industry. He testified that a reasonable royalty rate in this case is 6%. Mr. Myers is well-qualified to offer his opinion regarding a reasonable royalty in this case. However, the Court finds that his rate of 6% is excessively low.

(o) *The Rate Which the Parties Would Have Agreed Upon, Leaving Each with a Reasonable Profit*

240. The Court finds that, assuming that the '129 patent is valid and infringed, a reasonable royalty rate negotiated in February 1991 between Schneider and SciMed would have been 15%. A reasonable royalty rate of 15% is well within the royalty rates advocated by Mr. Smith and Mr. Myers and is an equitable, reasonable rate based on careful consideration of the record as a whole.

241. A reasonable royalty rate of 15% is supported by application of the *Georgia-Pacific* factors to the facts in this case.

242. The parties dispute the royalty SciMed could have paid and still maintained a profit. The Court finds that the record establishes that SciMed's anticipated profit for the EXPRESS™ would have been sufficient to pay a royalty rate of

15%. Such a rate would have also allowed SciMed to retain a reasonable profit on its EXPRESS™ sales.

D. *Pre-judgment Interest*

[23] 243. Plaintiffs are entitled to pre-judgment interest on all damages, calculated to the date on which final judgment is entered. Pre-judgment interest shall be compounded for time. The Court finds that Dr. Nantell's calculation of pre-judgment interest, based on interest rates for government securities, is reasonable and reliable.

244. The damage tables incorporated in these Findings follow Dr. Nantell's reasonable pre-judgment interest rates and compounding factors. Pre-judgment interest shall be based on the interest rates set forth in the tables. In addition to pre-judgment interest on the $ 45,132,427 in damages arrived at by the Court, calculated to entry of final judgment, Plaintiffs are entitled to pre-judgment interest on royalty damages for distribution by SciMed of infringing free goods, calculated to entry of final judgment. Plaintiffs are also entitled to pre-judgment interest on damages after June 30, 1993, calculated to final entry of judgment, at rates consistent with these Findings.

VI. *Attorney Fees and Costs*

[24] 245. Schneider claims that this is an exceptional case under 35 U.S.C. § 285 such that it should be awarded attorney fees and costs. The Court concludes that this is not an exceptional case within the meaning of 35 U.S.C. § 285.

VII. *Permanent Injunction*

[25] 246. Schneider requests that the Court enjoin SciMed from manufacturing or selling the RALLY™ catheter.

SciMed argues that the RALLY™ catheter should not be enjoined for public policy reasons.

247. Pursuant to an agreement with ACS, SciMed stopped selling the EXPRESS™ catheter in November 1993. In anticipation of the possibility that SciMed could breach or renegotiate its agreement with ACS, Schneider also requests a permanent injunction against the EXPRESS™.

248. SciMed argues that public interest justifies denying the injunction of the RALLY™. The evidence and expert testimony presented at trial suggests that commercial rapid-exchange catheters are generally interchangeable. SciMed presented the testimony of four physicians, Dr. Randall Hundley, Dr. L. Stephen Endsley, Dr. Arthur Muller, and Dr. Charles Wilkins, all of whom testified that they prefer the RALLY™ to other rapid-exchange catheters. Each also testified to a certain small percentage of procedures that could not be done at all without the RALLY™. They believe that without the RALLY™, those patients will be forced to undergo coronary bypass surgery, which is far costlier and more traumatic than PTCA.

[26] 249. While it is undoubtedly true that some physicians strongly prefer the RALLY™ . . . . . .

* * * * *

297. . . . infringement opinion, which supports the independent and reliable nature of his invalidity opinion. *See Westvaco Corp. v. Int'l Paper Co.*, 991 F.2d at 735, 774 (Fed. Cir. 1993). Under the totality of the circumstances, "a reasonable person would prudently conduct himself with . . . confidence that a court might hold the patent invalid or infringed." *Minnesota Mining*, 976 F.2d at 1580. The Court therefore concludes, based on the totality of the circumstances, that SciMed's infringement cannot fairly be called "willful."

IV. *Damages*

A. *Background*

[59,60] 298. Schneider (USA) is entitled to recover lost profit damages for EXPRESS™ and RALLY™ sales it would have made in the United States. *Schneider (Europe) AG and Schneider (USA) Inc. v. SciMed Life Systems, Inc.*, 3-91 CIV 241, slip op. at 16, 1993 WL 463204 (May 14, 1993) (Alsop, J.). Schneider (Europe) is entitled to recover lost profit damages for EXPRESS™ and RALLY™ sales that it would have made in Europe because all of SciMed's infringing actions took place within the United States. *Id. See* 35 U.S.C. § 271 (1981 & Supp. 1993).

299. Schneider (USA) is not precluded from collecting damages for infringement of the licensed patent under the licensing agreement between Schneider (Europe) and Schneider (USA). *Schneider (Europe) AG and Schneider (USA) Inc. v. SciMed Life Systems, Inc.*, 3-91 CIV 241, slip op. at 11, 1993 WL 463204, at *6 (May 14, 1993) (Alsop, J.). *See Waterman v. Mackenzie*, 138 U.S. 252, 256, 11 S.Ct. 334, 335-36, 34 L.Ed. 923 (1891).

[61,62] 300. To the extent that a reexamination certificate's "claims are identical with the original patent, [it] shall constitute a continuation thereof and have effect continuously from the date of the original patent." 35 U.S.C. §§ 252, 307(b) (1981 & Supp. 1993). The term "identical" means "*at most*, 'without substantive change.'" *Westvaco*, 991 F.2d at 741 (emphasis in original) (quoting *Seattle Box*, 731 F.2d at 828). A substantive change is any change where the scope of the claims is no longer identical to the original claims, which is a question of law. *Seattle Box Co. v. Indus. Crating & Packing*, 731 F.2d 818, 828 (Fed. Cir. 1984). If a reexamined claim is not identical to the original claims in terms of scope, the patentee is not entitled to damages on the reexamined claim before the date of the reexamination certificate. *Westvaco*, 991 F.2d at 742.

[63] 301. Pursuant to the doctrine of intervening rights, SciMed also argues that, because "substantial preparation was made before the grant of the reissue," the Court should protect the "investments [SciMed] made or business commenced [launch of the Express] before the grant of the reissue." 35 U.S.C. § 252 (1981 & Supp. 1993). The doctrine of intervening rights is properly raised only if valid claims in the original patent are altered in the reissued patent. If they are altered, the Court must consider whether to fashion appropriate relief "to the extent and under such terms as the court deems equitable." *Id.* *See Westvaco,* 991 F.2d at 743 (quoting 35 U.S.C. § 252). *See Seattle Box,* 731 F.2d at 829-30.

302. Because the Court finds that the reexamination certificate is without substantial change to the original '129 patent, the Court accordingly denies Defendant such relief. *See Seattle Box,* 731 F.2d at 828.

[64,65] 303. Pursuant to 35 U.S.C. § 284 (1981 & Supp. 1993), a patent owner's claim for damages may be based upon a reasonable royalty for the license or profits lost by the patent owner as a result of the alleged infringement. *Hanson v. Alpine Valley Ski Area, Inc.,* 718 F.2d 1075, 1078 (Fed. Cir. 1983). Computation of damages under 35 U.S.C. § 284 "is a matter within the sound discretion of the trial court." *Trell v. Marlee Elec. Corp.,* 912 F.2d 1443, 1445 (Fed. Cir. 1990) (quoting *Fromson,* 853 F.2d at 1576). It is permissible to award damages containing a combination of lost profits and a reasonable royalty. *State Indus.,* 883 F.2d at 1577.

[66,67] 304. Plaintiffs have the burden of proof, by a preponderance of the evidence, on all issues relating to damages. *Laitram Corp. v. Rexnord, Inc.,* 939 F.2d 1533, 1535 (Fed. Cir. 1991). The finding of an amount of damages is a factual question. *BIC Leisure Products,* 1 F.3d at 1217.

B. *Lost Profits*

[68] 305. An award of lost profits requires proof of "a causal relation between the infringement and its loss of profits. The patent owner must show that 'but for' the infringement, it would have made the infringer's sales." *BIC Leisure*, 1 F.3d at 1218. The *Panduit* test is an appropriate "but for" test. The *Panduit* test assumes that the patent owner and the infringer sell products sufficiently similar to compete against each other in the same market segment at similar prices. *Id.*

[69,70] 306. The question of whether Schneider would have made SciMed's sales can be resolved by showing: 1) demand for the patented product; 2) absence of non-infringing alternatives; 3) ability to meet demand; and 4) the amount of profit Schneider would have made. *Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1156 (6th Cir. 1978). *See Gyromat Corp. v. Champion Spark Plug Co.*, 735 F.2d 549, 552 (Fed. Cir. 1984). Lost profits must be established to a "reasonable probability." *BIC Leisure Products*, 1 F.3d at 1218.

(i) *Demand for the Patented Product*

[71] 307. Demand for the patented product can be established by a substantial number of sales by SciMed or Schneider of a product containing the patented features. *BIC Leisure Products*, 1 F.3d at 1219; *see, e.g., Gyromat*, 735 F.2d at 552 (evidence of sales by infringing product as evidence of demand). Evidence and testimony presented at trial showed a extremely high demand for SciMed and Schneider products containing the patented features.

(ii) *Absence of Non-Infringing Alternatives*

[72,73] 308. Absence of a non-infringing alternative is shown when purchasers in the marketplace are willing to buy the patented product for its advantages or when specific purchasers

of the infringing product base their purchases on those advantages. *Standard Havens Prods., Inc. v. Gencor Indus., Inc.*, 953 F.2d 1360, 1373 (Fed. Cir. 1991), *cert. denied*, ___ U.S. ___, 113 S. Ct. 60, 121 L.Ed.2d 28 (1992). Absence of a non-infringing alternative can be established where the patentee and the infringer are the sole suppliers of a "special niche" or "mini-market" within a generic product market. *Yarway Corp. v. Eur-Control USA, Inc.*, 775 F.2d 268, 276 (Fed. Cir. 1985). Because no other non-infringing rapid-exchange catheters were available before December 17, 1991, Plaintiffs have established the absence of non-infringing alternatives during that time frame.

[74,75] 309. A product is an acceptable non-infringing substitute if it competes in the same market for the same customers as the infringer's product. *BIC Leisure Products*, 1 F.3d at 1218. A licensed product is an acceptable non-infringing alternative as of the time that it is licensed. *Id.*

[76] 310. This element of the *Panduit* test also be met by substituting proof of market share for proof of the absence of acceptable substitutes. *Id.* at 1219. *See State Indus.*, 883 F.2d at 1578. Thus, where there are competitors other than the defendant in a product market, and all of the competitors are likely infringers of the subject patent, the patentee is entitled to lost profits of a percentage of the defendant's sales corresponding to the market shares of all the infringing competitors in addition to the market share of the patentee. *Id.* After December 17, 1991, which is the date on which a non-infringing alternative became available, it is reasonable to apply Dr. Dugan's market share analysis to determine what percentage of SciMed sales were Schneider lost sales. *Id.*

[77] 311. Schneider is not required to negate every possibility that a purchaser might have bought another product, or that the purchaser would have purchased the product from someone else absent the infringement. *Kaufman Co., Inc. v. Lantech, Inc.*, 926 F.2d 1136, 1141 (Fed. Cir. 1991). SciMed argued throughout trial that, had the EXPRESS ™ not been

introduced, a majority of EXPRESS ™ sales would have been OTW and FWC sales ("cannibalization"). While it is probably true that not *all* infringing SciMed sales would have gone to another rapid-exchange catheter, the Court finds that Schneider has adequately proven a reasonable probability that it (or ACS) would have made the vast majority of SciMed's infringing sales after December 17, 1991 and that Schneider would have made SciMed's infringing sales before that date. *See Standard Havens*, 953 F.2d at 1372.

(iii) *Ability to Meet Demand*

[78] 312. If the patentee and the infringer are the only suppliers in the market, it is reasonable to assume that the patentee would have made the infringer's sales, provided that the patentee had the capacity to make such sales. *State Indus.*, 883 F.2d at 1578.

313. Ability to meet demand for the rapid exchange catheter is measured by Schneider's capacity to meet the total sales made by Schneider and SciMed of the patented product. *Datascope Corp. v. SMEC, Inc.*, 879 F.2d 820, 825 (Fed. Cir. 1989), *cert. denied* 493 U.S. 1024, 110 S.Ct. 729, 109 L.Ed.2d 747 (1990). The capacity can be shown by establishing that Schneider had an adequate distribution system and adequate sales personnel. *Polaroid Corp. v. Eastman Kodak Co.*, 16 U.S.P.Q. 2d 1481, 1492, 1990 WL 324105 (D. Mass. 1990). Schneider has established with reasonable probability that it had the capacity to manufacture and sell the increased number of products. This element of the *Panduit* test is met.

(iv) *The Amount of Loss*

[79] 314. The "amount of lost profits awarded cannot be speculative but the amount need not be proven with unerring precision." *Bio-Rad Labs., Inc. v. Nicolet Inst. Corp.*, 739 F.2d 604, 616 (Fed. Cir.), *cert. denied*, 469 U.S. 1038, 105 S.Ct. 516, 83 L.Ed.2d. 405 (1984). Any doubts regarding the

precision of the calculation are resolved against SciMed as the infringer. *Ryco*, 857 F.2d at 1427.

315. The Court is "not restricted from choosing a figure other than that advocated by either party and may substitute an intermediate figure as a matter of judgment from all the evidence." *Minnesota Mining*, 976 F.2d at 1579 (citing *SmithKline Diagnostics, Inc. v. Helena Lab., Corp.*, 926 F.2d 1161, 1168 (Fed. Cir. 1991)).

316. SciMed's damages expert, Dr. Timothy Nantell, challenged Dr. Dugan's lost profit calculations at trial. Because the Court agrees with SciMed's argument and Dr. Nantell's testimony that the lost profit percentages calculated by Dr. Dugan are excessive, the Court concludes that Schneider has failed to meet its burden of proving the amount of loss under the fourth element of the *Panduit* test.

[80] 317. The Court instead adopts the lost profit percentages suggested by Defendants as an alternative to Dr. Dugan's profit margins. Whereas Dr. Dugan used an incremental profit analysis, Dr. Timothy Nantell, SciMed's damages expert, primarily used a regression analysis. The Court finds that Dr. Nantell's percentages of profit are more reasonable than Dr. Dugan's and that they will adequately and fairly compensate Plaintiffs for their lost profits. *Minnesota Mining*, 976 F.2d at 1579.

318. Plaintiffs criticize Dr. Nantell's regression analysis, arguing that it produces "wildly unrealistic results." (Schneider's Post-Trial Brief at 23). The Court finds, however, that the margins at which Dr. Nantell arrived more closely reflect Schneider's own calculations of its profit margin, at which Schneider arrived in a non-litigation setting. *See* (Plaintiffs' Trial Exhibit 714). It therefore adopts Dr. Nantell's profit margins.

C. *Reasonable Royalty*

[81] 319. A successful patentee in an infringement action is entitled to recover "damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court." 35 U.S.C. § 284 (1981 & Supp. 1993). The reasonable royalty measure of patent damages is "merely the floor below which damages shall not fall." *Lindemann*, 895 F.2d at 1406; *Fromson v. Western Litho Plate and Supply Co.*, 853 F.2d 1568, 1574 (Fed. Cir. 1988), *cert. denied*, 499 U.S. 907, 111 S.Ct. 1109, 113 L.Ed.2d 218 (1991); *Trans-World Mfg. Corp. v. Al Nyman & Sons, Inc.*, 750 F.2d 1552, 1568 (Fed. Cir. 1984).

320. The factors to be considered in determining a reasonable royalty rate and upon which this Court based its determination of a reasonable royalty rate are set forth in *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970), *aff'd in part, modified in part*, 446 F.2d 295 (2d Cir.), *cert. denied*, 404 U.S. 870, 92 S.Ct. 105, 30 L.Ed.2d 114 (1971). *See Smithkline Diagnostics*, 926 F.2d at 1168.

[82] 321. A reasonable royalty should be based upon the amount that a willing licensor and a willing licensee would have agreed upon during a hypothetical negotiation at the time the infringement began, if both parties had been reasonably and voluntarily trying to reach an agreement. *Id.* 318 F.Supp. at 1120. *See Fromson*, 853 F.2d at 1575. In a hypothetical negotiation, the patent is assumed to be valid and infringed. *Trio Process Corp. v. L. Goldstein's Sons, Inc.*, 533 F.2d 126, 129 (3d Cir. 1976), *cert. denied*, 449 U.S. 827, 101 S. Ct. 91, 66 L.Ed.2d 30 (1980).

[83] 322. Evidence of a reasonable royalty can be presented in various ways, including: a) defendant's anticipated profits, as indicated by actual profits made; b) expert testimony regarding reasonableness under the circumstances; and c) the rate

the patentee would have required to grant a license. *Trell*, 912 F.2d at 1446.

323. The trial court "is *not* limited to selecting one or the other of the specific royalty figures urged by counsel as reasonable." *SmithKline Diagnostics*, 926 F.2d at 1168 (emphasis in original) (citing *Radio Steel & Mfg. Co. v. MTD products, Inc.*, 788 F.2d 1554, 1556-57 (Fed. Cir. 1986)). "On the contrary, the determination of a reasonable royalty must be based upon the entirety of the evidence and the court is free to, indeed, must reject the royalty figures proffered by the litigants . . . where the record as a whole leads the court to a different figure." *Id.*

324. Based on careful review of the record as a whole, including consideration of evidence and testimony presented at trial, the Court concludes that application of the *Georgia-Pacific* factors to the facts of this case favors a reasonable royalty rate of 15% for the reasons set forth in the Findings of Fact. 15% is a fair, equitable rate that will adequately compensate Plaintiffs and that will allow Defendant to maintain a profit on its sales.

D. *Pre-judgment Interest*

[84.85] 325. Pre-judgment interest should ordinarily be awarded, absent some justification for withholding such award. *General Motors Corp. v. Devex Corp.*, 461 U.S. 648, 657, 103 S.Ct. 2058, 2063, 76 L.Ed.2d 211 (1983). A trial court is afforded wide latitude in the selecting the interest rate. *Uniroyal*, 939 F.2d at 154; *Bio-Rad Laboratories v. Nicolet Instrument Corp.*, 807 F.2d 964, 969 (Fed. Cir. 1986), *cert. denied*, 482 U.S. 915, 107 S.Ct. 3187, 96 L.Ed.2d 675 (1987). The purpose of pre-judgment interest is "to ensure that the patent owner is placed in as good a position as he would have been had the infringer entered into a reasonable royalty agreement." *Bio-Rad*, 807 F.2d at 969 (quoting *Devex v. General Motors Corp.*, 461 U.S. 648, 655, 103 S.Ct. 2058, 2062, 76 L.Ed.2d 211 (1983)).

326. The Court concludes that Plaintiffs are entitled to pre-judgment interest compounded for time as set forth in these Findings.

V. *Attorney Fees and Costs*

[86] 327. In "exceptional cases," the trial court may award attorneys fees to the prevailing party pursuant to 35 U.S.C. § 285 (1981 & Supp. 1993). *BIC Leisure*, 1 F.3d at 1222. Exceptional cases involve willful infringement, misconduct during litigation, vexatious or unjustified litigation, or a frivolous defense. *Beckman Instruments, Inc. v. LKB Produkter AB*, 892 F.2d 1547, 1551 (Fed. Cir. 1989). Because the Court finds that there is no evidence in the record supporting such a finding, the Court declines to award Plaintiff fees and costs.

* * * * *

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AMENDED AND RESTATED AGREEMENT

This AMENDED AND RESTATED AGREEMENT, effective as of the date of last signature hereto (the "Agreement Date"), between Schneider (Europe) A.G. Schaerenmoostrasse 115, 8052 Zuerich, Switzerland ("Schneider"), and Dr. Tassilo Bonzel, with an address at Monnetstrasse 14, 6400 Fulda, Federal Republic of Germany ("Bonzel").

WHEREAS, Bonzel has expertise in the area of catheter devices, has developed a certain medical device, has filed patent applications and obtained patents disclosing and claiming the Device (defined below), and owns or may acquire certain additional patents, technical information, and know-how relating to the manufacture, use and sale of such Device;

WHEREAS, Schneider desires to license all rights to such Device and/or any process related to the manufacture, use or sale thereof and all improvements to such Device or such processes as herein provided; and

WHEREAS, the parties heretofore executed an agreement effective June 4, 1986 concerning the Device and now desire to amend and restate that agreement pursuant to Article XVI, Paragraph (d) thereof.

NOW, THEREFORE, in consideration of the mutual covenants and agreements provided herein, and for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by Bonzel, the parties hereby agree as follows:

* * * * *

respect to which Bonzel has the right to grant licenses.

j) "Technical Information" shall mean any technical data or information relating to Devices, including, without limitation, know-how, data, skill, expertise, experience, models, drawings, materials, records, production methods, manufacturing processes, any and all preclinical and clinical studies including safety and efficacy data, procedures of testing and quality control requirements or any part or combination thereof, and any Improvements relating to the manufacture, use and sale of Devices.

II. LICENSE GRANT

a) Bonzel hereby grants Schneider a royalty-bearing, worldwide, exclusive right and license under the Proprietary Rights to make, have made, use and sell, the Devices, and to grant sublicenses on such terms and conditions as Schneider in its sole discretion may determine, in the Licensed Territory.

b) In the event that a Device is sold within a respective country that falls within the claims of a Licensed Patent the license granted pursuant to Article II, Paragraph (a) shall, unless earlier terminated in whole or in part in accordance with the provisions of this Agreement, continue in force for the life of the last to expire of the applicable Licensed Patents.

c) Bonzel agrees to execute or cause to be executed such documents, in recordable form or otherwise, as Schneider shall request in order to file or license domestic and foreign patent applications for the Device and/or

* * * * *

c) Any invention embodied in the Device has not been publicly disclosed within the meaning of the patent laws of West Germany.

d) Upon any reduction to practice of the invention embodied in the Device, there will be no persons other than Bonzel and any other persons working on Schneider's behalf who may be inventors thereof within the meaning of the German patent laws.

XI. CONFIDENTIALITY

Bonzel shall not at any time, until one year after the termination of this Agreement, divulge, furnish, or make accessible to anyone, other than Schneider or persons designated by Schneider, Technical Information, the Licensed Patents and other inventions and discoveries, Improvements, whether patentable or not, directly or indirectly useful in or relating to the Device or Schneider's business as conducted by it from time to time, or with respect to any engineering, development or research work, if the same shall be secret or confidential, as to which Schneider is now, or at any time during the term of this Agreement shall become, informed.

XII. LITIGATION

a) If any third party shall, in the reasonable opinion of Schneider, within any country in the Licensed Territory infringe any of the Licensed Patents, Schneider shall promptly notify Bonzel. Schneider shall have the right to bring suit and to take action in its own name or in the name of Bonzel where necessary. Bonzel and Schneider shall, at the other's request, take all action necessary to assist in such suits and each party shall . . . .

* * * * *

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SUBLICENSE AGREEMENT

AGREEMENT, effective as of October 5, 1989, between Schneider (Europe) A.G. ("Licensor"), Scharenmoostrasse 115, CH-8052 Zurich, Switzerland, and Schneider (USA) Inc., A Pfizer Company ("Licensee"), 2905 Northwest Boulevard, Minneapolis, MN 55441.

WHEREAS, Licensor entered into an amended and Restated Agreement, effective November 14, 1988, as amended June 30, 1989 (the "License Agreement") with Dr. Tassilo Bonzel ("Bonzel") under which Licensor obtained license and sublicense rights to certain medical devices as provided therein;

WHEREAS, Licensee has obtained Food and Drug Administration approval to commercialize said medical devices in the United States; and

WHEREAS, it is now appropriate for Licensor to grant to Licensee a sublicense of said rights solely with regard to the United States of America, its territories and possessions (collectively, the "Territory").

NOW, THEREFORE, Licensor and Licensee hereby agree as follows:

1. Except as otherwise provided herein, all capitalized terms defined in the License Agreement when used herein shall have their respective defined meanings as provided therein. For purposes of this Agreement, "Licensed Patents" shall mean United States patent no. 4,762129, issued August 9, 1988, together with any additional patents hereafter issued in the United States under which Licensor shall be licensed pursuant to the provisions of the License Agreement.

2. Licensor hereby grants Licensee a royalty-bearing, non-exclusive right and sublicense under the Proprietary Rights, Licensed Patents, and the Licensed Names o make, have made, use and sell, the Devices in the Territory, and to grant further

sublicenses on such terms as Licensee in its sole discretion may determine, subject to the requirement that such terms shall be consistent with the rights granted Licensor under the license Agreement.

3. With respect to all Devices sold in the Territory, so long as Licensor shall have the rights under the License Agreement, Licensee agrees to pay to the Licensor royalties of 12% of Net Sales in the Territory. Any taxes required to be paid or withheld by Licensee, its affiliates or sublicensees for the account of the Licensor on amounts payable under this Agreement shall be deducted from the amounts payable at the rates specified by applicable law. In addition, Licensee shall provide promptly to Licensor receipts from the government or taxing authority evidencing payment of such taxes.

4. All payments due under this Agreement should be paid to Licensor not less than ten (10) days prior to the date Licensor shall be responsible under the License Agreement to make the corresponding payments to Bonzel.

5. With respect to the Territory, Licensee has reviewed and understands the License Agreement and agrees to comply with all obligations of Licensor thereunder, and Licensee shall have non-exclusive rights to all of Licensor's rights with respect to the Territory to the extent granted to, or provided for the benefit of Licensor under the License Agreement; provided, however, nothing herein shall be construed as creating any rights or obligations as between Licensee and Bonzel or between Bonzel and Licensee.

6. This agreement shall be governed by and construed in accordance with the laws of the State of New York. This Agreement sets forth the entire agreement and understanding between the parties as to the subject matter hereof and has priority over all documents, verbal consents or understandings made between Licensor and Licensee before the conclusion of this Agreement with respect to the subject matter hereof; none

of the terms of this Agreement shall be amended or modified except in writing signed by the parties hereto.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first written above.

SCHNEIDER (EUROPE) A.G.

By: S/_____

SCHNEIDER (USA) INC.,
A PFIZER COMPANY

By: S/_____